

## Policy Brief # 8

### What Will It Take To Deliver ‘Direct Benefits / Cash Transfer’ Programmes Successfully?

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## Overview

A much desirable, though hugely ambitious, policy initiative of transferring the vast majority of the central and state government benefits, entitlements and subsidies, as cash, directly into the *Aadhaar* linked accounts of the eligible beneficiaries was [announced by the Prime Minister of India](#) on the 26<sup>th</sup> of November 2012 at the first meeting of the [National Committee on Direct Transfers](#).

It is well recognised that the programme will encounter several challenges and a number of things will need to fall in place in order for it to be a success. As the political leaders and the government officials gradually appreciate the enormity of the efforts involved and the barriers to be overcome, the timelines and phasing out of the rollout are already being reconsidered.<sup>1</sup>

This Policy Brief highlights the vital elements of policy changes and actions that would be necessary (perhaps inevitable) for efficient and meaningful rollout of this grand programme, even in a scaled down form.

## Recommendations

According to the Prime Minister, "The twin pillars for the success of the system of Direct Cash Transfers that we have envisioned are the *Aadhaar* Platform and Financial Inclusion".<sup>2</sup> As these two pillars are strengthened to support the delivery of direct benefits transfer, there are several other aspects that would come into play. There are many operational challenges that would need to be addressed before the vision of direct benefit transfer can become a reality.

Based on learnings from multiple pilot implementations underway across various parts of the country,<sup>3</sup> and *MicroSave*'s on-the-ground experience and lessons learned through extensive work in the area of financial inclusion and electronic benefits transfer (EBT) in India<sup>4</sup> (working with banks and business correspondent network managers) and other emerging economies globally,<sup>5</sup> the following are our recommendations on desirable measures to be put in place in order to address the challenges that exist today.

### A. Establish accountable and motivated leadership at district, state and department level

- The district administration is the principal implementation authority for a majority of the central or state government welfare schemes. It is of utmost importance to ensure that the District Collectors, District Magistrates or Divisional Commissioners, as the case may be, are adequately motivated and own the responsibility for successful implementation of the direct benefit transfer programme. They need to be appointed as nodal officers for the programme.
- District authorities should be empowered to monitor and direct all the implementing agencies – including the government departments (at the district and block/*tehsil* level), banks, business correspondents, *Aadhaar* enrolment agencies and any other implementing agencies. They also need to be made accountable for the success of the programme by introducing this as an important key-result-area (KRA) into the performance measurement of the senior district and bank officials and department heads (at the state level).
- The expenditure budgets of the district administration too need to be raised adequately for the additional time-bound efforts that the execution of this programme would entail. Benchmarks of additional cost that would be incurred per beneficiary, for the main schemes, can be determined by independent experts / consultants and used for determining the budgetary allocation desirable for every district.
- Appropriate steering committees comprising Chief Secretaries, Departmental Secretaries (Ministry of Rural Development, Department of Financial Services, Ministry of Health etc., lead bankers, SLBCs (state level banker's committees), UIDAI along with their regional

<sup>1</sup>[Initial set for 51 districts, the programme is now being targeted at 20 districts from January 1, 2013, 11 districts from February 1, 2013 and another 12 districts from March 1, 2013, after ensuring adequately readiness for rolling out.](#)

<sup>2</sup>[Prime Minister's remarks at the first meeting of the National Committee on Direct Transfers](#)

<sup>3</sup>*MicroSave* research studies, [The Economic Times, December 2012](#), [The Economic Times, April 2012](#),

<sup>4</sup>See for example *MicroSave*'s reports on electronic payments to the [TenduPatta workers](#) and to the [ASHA health workers](#)

<sup>5</sup>Including Indonesia, Kenya and a variety of Pacific Islands

offices, District Collectors / Magistrates should be formed to steer and guide the programme implementation; monitor progress; and provide support in overcoming barriers periodically.

#### **B. Mandate adequate compensation to the business correspondents, agents and other agencies**

- Business correspondents and/or their agents would have a vital role in successfully operationalising the programme and ensuring payments are disbursed in a timely and convenient manner to the beneficiaries. While increasing the bank branches and ATMs<sup>6</sup> would ensure better coverage, this would be a slow and investment-heavy process, and would certainly not be a substitute for the business correspondents. Both in terms of outreach, and the significantly greater transaction processing load that would result from direct benefit transfers, bank branches and ATMs would not be able to cater to the demands of the beneficiaries. And business correspondents would have to be used to meet the additional demands and coverage needed.
- Business correspondents (institutions and individual BCs) are currently hugely disappointed and experiencing massive attrition.<sup>7</sup> In the vast majority of cases today, neither the banks nor the business correspondents are paid adequately to be able to offer acceptable quality of banking services to the poor consumers.<sup>8</sup> This holds true for financial inclusion as well as EBT programmes. A high-powered [task force led by Nandan Nilekani, Chairperson, UIDAI](#), had recommended a fee of 3.14% of the transaction value (with a cap of Rs.20 per transaction) for government payments handled by banks and business correspondents.
- However, the on-the-ground reality is that barring a few states like Andhra Pradesh, hardly any state government is paying out even 1% to 2% transaction fee. This needs overhauling, if the direct benefits transfer programme has to become a success. Unless the viability and existence of the BCs can be addressed by paying them a reasonable compensation, there will not be many BCs left to deliver the ambitious programme.<sup>9</sup> The task force's recommendations are reasonable, practical and legitimate enough for the state and district administrations to adopt. These can, at the very least, be tested out in the 51 districts and based on the learnings adjusted during future expansion.
- The compensation or the incentives to the BCs can be linked to measurable outcomes delivered or performance achieved. Some examples of key performance indicators (KPIs) that can be introduced are:
  - Achievement of assigned target for opening bank accounts of beneficiaries;
  - Achievement of *Aadhaar* seeding to bank accounts, aligned to district implementation plan;
  - Tangible support provided to district administration to achieve scheme database digitisation;
  - Tangible support provided to district administration to seed *Aadhaar* numbers and bank account numbers to the scheme databases;
  - Achievement of a threshold of transactions<sup>10</sup> every month (threshold can be classified according to geography of presence, such as – urban, peri-urban, villages with more than 2,000 population or villages below 2,000 population);
  - Linked to a score based on periodic beneficiary satisfaction surveys (covering attributes such as service quality, convenience, BC accessibility, staff/agent behaviour and integrity) conducted by independent agencies qualified to do so.

<sup>6</sup>[Media reports](#) on accelerated efforts for establishing new branches and ATMs in the 51 districts.

<sup>7</sup>MicroSave Survey of BCNM Forum: [State of the Business Correspondent Industry in India](#)

<sup>8</sup>MicroSave India Focus Notes [80](#), [90](#) and [95](#)

<sup>9</sup>ibid

<sup>10</sup>[UIDAI has taken a very encouraging step in this direction by announcing a scheme, wherein UIDAI would pay a one-time incentive of Rs. 15,000 on completion of 2,000 eligible transactions per micro ATM deployed by a bank for Aadhaar enabled transaction processing](#)

- Some business correspondents have demonstrated the value addition they can provide by not only supporting account opening and transaction processing, but also proactively supporting (even driving) digitisation of scheme databases, seeding *Aadhaar* numbers and establishing processes that are now running seamlessly.<sup>11</sup>

### C. Simplify and automate critical and error-prone front-end processes

- Linking the *Aadhaar* numbers of beneficiaries with the respective (a) records in the scheme they are entitled to and (b) bank accounts, is a critical one time activity before the direct transfer of benefits can be undertaken. This needs to be done quickly, in a campaign mode, while ensuring accuracy.
- The process of capturing *Aadhaar* details of beneficiaries can be automated.
  - *Aadhaar* numbers on the letters issued to beneficiaries are already bar coded. Using a simply designed application (a task that UIDAI can easily undertake given its technical prowess), these can be read by low-cost hand-held scanners employed even at small grocery stores now-a-days. This information can be captured and appended to the pre-populated electronic records under the various welfare schemes. Where a beneficiary is entitled for multiple schemes, the information can be captured once and then shared amongst peer departments.
  - [National Informatics Centre \(NIC\)](#), a key provider of Information Technology (IT) services to the Government of India, along with the state IT departments, can play a vital role in developing and institutionalising these innovative solutions. In Aurangabad, NIC has developed and employed an application that allows the *Aadhaar* number seeding, verification by relevant officer and further transmission to the bank for account opening in a very efficient and secure manner.<sup>12</sup> It also generates MIS reports that enable the district administration to track status.
- The district nodal officers would need to play a critical role in driving this. This part of the seeding process is most cumbersome, slow and error-prone, and automation can alleviate most of these barriers.
- Business correspondent agents, who are often trained in using hand-held devices and often even personal computers, can be leveraged effectively for this task, by teaming up with the block staff. For block staff this is a new one-time task and one they are often not trained on, or comfortable in undertaking. Together with the block staff, business correspondent agents can also act as maker-checkers, avoiding errors at source and enabling the process to become efficient and seamless in comparison to what is being currently attempted in many districts.

### D. Undertake training, skill building and refreshers at war-footing

- A very large number of diverse stakeholders (within the government departments, banks and business correspondents) have to be involved in implementing *Aadhaar* enabled financial services' programmes. Electronic/mobile-banking (e/m-banking), government to person (G2P)/electronic benefit transfer (EBT) and *Aadhaar* enabled services and technology are all very new concepts for most of these participants. There are no formal and consistent mechanisms available yet to train and to share the best practices that have already evolved over time. The staff on the ground also need basic training on activities they are required to perform in an efficient and error-free manner. These could include basic training on: efficient ways of digitising beneficiary records; understanding the end-to-end processes; capturing data accurately; using MS excel more effectively; knowing answers to FAQs; getting acquainted with troubleshooting guides for frequently encountered errors or problems; and so on.

<sup>11</sup>Refer *MicroSave's* upcoming case study on pension payments in Aurangabad district

<sup>12</sup> Refer 'Project Dilasa' at [www.dilasaaurangabad.com](http://www.dilasaaurangabad.com)

- Effective and relevant training, as well as periodic refresher training, is therefore a critical area needing attention. If addressed well, this that can greatly aid the success of the programmes. There would be a need to undertake train-the-trainer approach (to equip them for subsequent scaling-up efforts) as well as direct training of the operational staff (given the tight timelines for the first 43/51 district rollout).
- UIDAI has evolved several best practices (examples being best finger detection (BFD) and finger fusion) that aid efficient and low-error transaction processing using *Aadhaar*. It is observed that often district staff, and even several banks and business correspondents, are unaware of these practices and continue to struggle, trying to reinvent the wheel. Disseminating knowledge about these best practices needs to be undertaken both as a part of the training programmes and also along with marketing and awareness building campaigns.

#### E. Policy interventions

- There is a compelling need to modify the policy requirement for beneficiaries to withdraw the entire sums received in one go. This is certainly required for MGNREGA where the current approach is very onerous for the beneficiaries as well as for the service providers. There can be better mechanisms to ensure compliance by banks and business correspondents. For example:
  - Those beneficiary accounts that are integrated into core banking and have been issued ATM cards can be required to only confirm credit into the account, leaving the beneficiaries a choice of when and how much to withdraw (as, in this case, they would have wider choice and opportunity in operating their accounts, without being locked-in with a single agent).
  - SMS alerts can be made mandatory for all beneficiary transfers as soon as their accounts are credited. These alerts can also provide the beneficiaries information about the amount remitted and their balance status, thus empowering them with information.
  - Centralised call centres catering to different geographies and programmes can be set-up to allow beneficiary grievances to be registered.
  - Periodic beneficiary surveys can be undertaken by external agencies to access if: the payments are credited and disbursed accurately and on time; the processes have taken root; and to also evaluate the impact of the programme as well as contrast the new approach (from beneficiaries' standpoint) with the current methods.
- A guaranteed share of the compensation (3.14% or similar) paid out to banks by the government should be earmarked to be paid to the business correspondent agents. Based on empirical evidence,<sup>13</sup> this should be at least 50% (preferably 75%) to ensure the last mile agents earn enough to remain viable.
- There is an urgent need to integrate financial inclusion and EBT programmes and to ensure they are delivered through the same channel / BC institution. While RBI has issued directives<sup>14</sup> to this effect, the ground reality is different, with these programmes still operating in isolation in most states.
- Together with this, the assignment of villages to banks needs to be optimised. BC policies have swung to extremes – from highly inefficient, non-contiguous allocation of villages at one time to a monopolistic, monolithic structure of one BC per cluster (equivalent to a large state). The latter has now been under pilot test for over 6 months, but yet to demonstrate any encouraging results.<sup>15</sup> There are now enough learnings available to re-allocate the

<sup>13</sup>MicroSave's studies with several corporate and individual BCs and analyses of their financials

<sup>14</sup>[Operational Guidelines on implementation of Electronic Benefit Transfer \(EBT\) and its convergence with Financial Inclusion Plan \(FIP\)](#), Reserve Bank of India, August 2011

<sup>15</sup>ibid

villages in a way that can enable critical mass and meaningful scale of operations to the service providers, while ensuring healthy competition between them and adequate choice to the beneficiaries and other poor consumers.

- Policy clarity is also required on bank account requirements. Several beneficiaries hold joint accounts, wherein often both spouses are the beneficiaries, however, only one *Aadhaar* number can be linked to these joint accounts. Likewise clarity and optimisation is required on requirements for a single or multiple different accounts, when a citizen is entitled to more than one scheme. Currently accounts for MGNREGA are required to be different from those for pension payments and so on. Moreover schemes such as MGNREGA define the beneficiary unit as a household, whereas other schemes, such as pensions or scholarships are for individual beneficiaries.

#### **F. Invest extensively in beneficiary education and financial literacy**

- For the programme to have a 'real impact' on the beneficiaries, they need to understand and appreciate how the new approach would be different and in what ways they can benefit. Unless beneficiaries can comprehend and relate to the potential advantages, they would not be empowered enough to derive the benefits, and intermediaries can continue to abuse their position, by finding new avenues for doing so.
- Additionally, as programme delivery approaches undergo transformation – for example SMS notification on credit of accounts or establishing dedicated beneficiary helplines / call centres – communication and awareness building around these changes need to be undertaken for the beneficiaries to avail advantages.
- Widespread communication and awareness campaigns would also overcome potential large scale resistance from interested parties to scuttle the programme or jeopardise the efforts.
- Awareness is also required for the staff and personnel involved in service delivery. For example few BC agents are aware of the very attractive incentive scheme announced by UIDAI on receiving a one-time incentive of Rs. 15,000 on completing 2,000 *Aadhaar* enabled transactions using microATMs.<sup>16</sup>

#### **G. Enhance network connectivity in deep rural areas and North-Eastern States**

- *Aadhaar* linked direct benefits transfer is an online solution, needing a good data network ([GPRS](#)) connectivity for the microATMs to function properly and efficiently. Many parts of the targeted 51 districts (and across the 14 states planned thereafter) do not have reliable data network availability. This needs to be addressed by the [Department of Telecommunication](#) utilising the [universal service obligation \(USO\) fund](#) for this purpose. As network build-out is a slow process, immediate attention is required on this front to ensure comprehensive coverage can be achieved in the targeted districts.

#### **H. Enable the postal system to deliver *Aadhaar* linked payments**

- A very significant share of the government payments is already handled by the postal system of [India Post](#). Rs. 72 billion worth of MGNREGA payments were made in 2011-12<sup>17</sup> through an extensive network of over 140,000 post offices (significantly greater than the 34,000 rural bank branches).
- The postal department has several handicaps currently that prevent them from undertaking direct benefits transfers at scale.
  - Post offices have an acute shortage of manpower and find it difficult to undertake additional workload of government payments.<sup>18</sup>

<sup>16</sup>ibid

<sup>17</sup>*MicroSave* Research Paper: [Integration and Interoperability of Financial Services](#)

<sup>18</sup>In Aurangabad, the district administration had to take a decision to open new beneficiary accounts for certain schemes with a proactive bank and terminate postal accounts as the beneficiaries were not getting requisite services

- The postal network is not centrally connected (as compared with banks that are mostly on core banking systems). It is therefore extremely difficult to manage, track, monitor and audit government payments. Work on the automation of the postal network is commencing at rapid pace and is expected to be completed by the middle of 2013.
  - The postal department also does not have any linkages to *Aadhaar* platform yet. This can be potentially addressed with India Post becoming an [authorised service agency \(ASA\)](#) for UIDAI.
- Once India Post is equipped for *Aadhaar* enabled government payments, it will not only accelerate the implementation of the direct benefits transfer programme, but also save inconvenience for millions of beneficiaries who currently receive their entitlements through post office accounts.

The steps outlined above can go a long way to overcome the hurdles, accelerate the rollout of the direct benefit transfers, making the system more seamless and thus achieving the programme's goals for both the government and the beneficiaries.

### **Why do we believe implementing these recommendations will be necessary for the success of the programme?**

Adoption of the business correspondent (BC) model was a big step and an important tool not only for financial inclusion but also for overcoming the barriers to delivery of entitlements and achieving greater efficiency and transparency. However the BC model has, in its multiple *avatars* so far, failed to be a remedy, far less a panacea.<sup>19</sup>

The business correspondent model that was conceived with the intent of extending financial services to the excluded and under-banked, has witnessed numerous regulatory and policy changes through its journey of more than six years to date. Some have been very positive, giving a huge impetus to the initiative; others have been incremental, leaving much to be desired; a few have been decelerating, and perhaps could turn out to be show stoppers.<sup>20</sup>

Most of the existent BC implementations have several drawbacks. The major ones are: (a) lack of a viable business model for the service providers operating as business correspondents to banks; (b) adoption of proprietary and often non-interoperable front-end and back-end technologies that prevent taking advantage of economies of scale and cause the beneficiary accounts to be very insular;<sup>21</sup> (c) replication of capture and storage of the beneficiary biometrics information for varied purposes and in multiple (often local) systems causing duplication of efforts and high costs; (d) adoption of offline solutions, that have an upside of lesser dependence on reliable network availability, but introduce the risk of heavy dependence on the service provider or their agents, reducing customer choice tremendously.<sup>22</sup>

With learnings over a period of time, the deficiencies of the current BC implementations are now better understood.<sup>23</sup> The Unique Identification Authority of India's (UIDAI) *Aadhaar* platform could provide a fitting solution to address many of the challenges currently facing the G2P mandates and BC model.<sup>24</sup>

UIDAI has been working towards creating an enabling environment. UIDAI believes there are three fundamental pillars of its approach that would enable the *Aadhaar* platform achieve its goals. These are:<sup>25</sup>

<sup>19</sup>MicroSave India Focus Notes: "[Driving Viability for Banks and Business Correspondents](#)" and "[Saddling-Up a Dead-Horse – Financial Inclusion in India](#)"

<sup>20</sup>MicroSave Policy Brief # 7: [Is the Business Correspondent Model in Policy Paralysis?](#)

<sup>21</sup>ibid

<sup>22</sup>ibid

<sup>23</sup>Refer [Why E/M Banking Will Soon Reach Scale in India](#), (2011), [MicroSave Report](#) and MicroSave India Focus Notes [80](#), [90](#) and [95](#)

<sup>24</sup>[Indian Prime Minister's address during launch of Aadhaar enabled service delivery](#)

- (a) An online system built on the assumption that reasonable quality wireless data connectivity would be available to most rural areas in India over the next few years. Mobile network operators (MNOs) and their tower companies have already provided about 80% to 85% of the infrastructure needed for universal coverage in India. The remaining 15% to 20% should not be very difficult given the fund availability with [universal service obligation \(USO\) fund](#) created for this purpose.
- (b) Cloud-based storage and computing will rapidly become universal and cheaper; and hence storing and accessing biometric or account information and transaction processing from cloud-based environments using online access will increasingly become a reality. This can give considerable impetus to solutions that can provide consumers the much needed choice of being able to access services anywhere (ATMs, bank branches or alternate agents, instead of being dependent on a single agent in their village).
- (c) Following [Moore's law](#), the cost of front-end device such as micro ATMs, handheld devices, mobile phones and computers will continue to fall, while their computing power and performance will continue to improve.

UIDAI has also rolled out, or is working on, other applications that would enable easier, faster and cheaper enrolment of beneficiaries by banks or other institutions involved with the delivery of government benefits transfer. One such application is [electronic KYC](#) (know-your-customer), which essentially leverages the KYC information already captured by UIDAI during the enrolment process and makes it available electronically to banks or enrolling institutions, thereby avoiding duplication of efforts and reducing errors arising out of re-capturing consumer records and subsequent manual data entry.<sup>26</sup>

However, from our experience, several challenges and barriers still exist that need to be surmounted.

#### A. Lack of digitisation of scheme databases

- Beneficiary details under several welfare programmes continue to be decentralised and are often in paper format, awaiting digitisation. This digitisation would need to be the first step in attempting any form of electronic transfer of benefits.

#### B. Coverage of Aadhaar enrolments

- Of the 51 priority districts, nearly 11 have over 90% enrolments (although most of these are small districts in high income states with lower incidence of poverty), however in nearly 20 of these districts the enrolments levels are lower than 40%.<sup>27</sup>
- For the next phase of scaling up the programme nation-wide, due consideration to states mapped to [National Population Register \(NPR\)](#) would need to be given, as *Aadhaar* enrolments for NPR mapped states is progressing much slower. At this stage, the programme would be put to a real stress test, as the states with higher population and greater incidence of poverty (Bihar, Madhya Pradesh, Uttar Pradesh, Rajasthan and Orissa) would start to be covered.

Potential solutions for (A) and (B) above are outside the scope of this policy brief.<sup>28</sup> However, accelerating the efforts currently underway to digitise beneficiary databases and to bring *Aadhaar* enrolments to substantive levels is obviously warranted.

#### C. Complex, inefficient and error-prone approaches and processes

- Where the beneficiary details have been digitised, the mapping of *Aadhaar* numbers of beneficiaries to these programme databases (e.g. [NSAP](#), [NRLM](#) or [IAY](#) databases) is slow and inefficient.

<sup>25</sup>UIDAI Chairman Nandan Nilekani's speech at the workshop on 'Direct Entitlements Transfer', November 2012

<sup>26</sup>[UIDAI to allow e-KYC pre-paid cards soon, The Business Standard Newspaper, October 2012](#)

<sup>27</sup>*Aadhaar* enrolment status as of September 2012

<sup>28</sup>Refer *MicroSave's* upcoming case studies for potential solutions



- The processes are largely manual, complex, error prone and involve multiple hand-offs (of physical and electronic documents) between several departments and institutions, often going back and forth between them.<sup>29</sup>
- Despite considerable overlap between them, most programmes are operated independent of one another (such as requirement of opening a different account for each individual EBT programme and furthermore keeping them separate from the accounts opened for the purpose of financial inclusion). This is causing: duplication of efforts; confusion amongst banks, service providers and consumers; increased costs; and administration difficulties.

#### D. Non-existent ownership and monitoring

- Far from seeing it as mission-critical, there is a lack of ownership to drive completion of the tasks involved. Work on digitising direct benefit transfers does not figure amongst the priorities or the day-jobs of staff involved and often there is no senior-level supervision or monitoring.
- Only where self-motivated individual senior government officials such as District Collectors / District Magistrates or departmental heads have driven a few programmes, early successes are becoming evident.<sup>30</sup>
- There is also a need for concurrent evaluation of the various pilots and rollouts in the country to ensure that the issues and challenges are timely identified and solutions found. This is essential for the success of the programme.<sup>31</sup>

#### E. Missing skills / tools for the job and absence of basic training

- The government staff entrusted with the task lack familiarity with technology and are not conversant with the new processes to be adopted. They are inadequately trained, and in most cases work has been initiated without even a preliminary briefing. They need constant support and monitoring.
- Lack of appropriate tools (such as knowledge about good practices UIDAI has evolved for efficient *Aadhaar*-enabled transaction processing, troubleshooting guides or briefing on frequent questions (FAQs)) also stands in the way of staff performing their role properly.

#### F. Inadequate compensation to agencies that can support efficient delivery

- Business correspondents and their agents can provide a vital support role to the government departments and banks. They are trained on technology, familiar with the processes and equipped to carry out the task. However, they are not motivated to participate as no norms have been laid out to compensate them suitably for this additional work.
- Local banks or government departments are either not empowered or are hesitant in seeking their involvement for want of a clear national policy / directive on the matter.<sup>32</sup>

#### G. Ignorant beneficiaries

- Beneficiaries are completely ignorant of the advantages from the programme and therefore not motivated enough to proactively acquire *Aadhaar* number, open bank account and ensure their beneficiary scheme details are properly seeded with the *Aadhaar* and bank account information.

<sup>29</sup>*MicroSave* has captured the end-to-end processes in some cases and found them to be complex and manual 15 to 18 step processes involving 4 to 5 different entities (BDO, bank, BC, UIDAI RO and so on) and taking several months for every iteration.

<sup>30</sup>[Aurangabad and Wardha districts have demonstrated some good practices in running successful pilots or for a few schemes at smaller scale](#)

<sup>31</sup>Jairam Ramesh, Minister of Rural Development, Government of India, at the workshop on 'Direct Entitlements Transfer', November 2012

<sup>32</sup>A contrast between the approaches followed at Aurangabad and West Tripura districts is worth a mention here. For more details, refer to the forthcoming *MicroSave* case studies

- Insufficient knowledge and lack of training of the government machinery involved is a major barrier to providing accurate information to the beneficiaries or answering frequently asked questions (FAQs).

#### **H. Onerous programme considerations**

- Cash distribution by agents frequently fails for want of *Aadhaar* authentication due to poor connectivity, coupled with the need for distributing the entire amount credited to beneficiary accounts within a short period. Agents often opt for alternate approaches such as manual authentication or offline payment to overcome such operational challenges, defeating the very purpose of *Aadhaar* linkage.
- Although more amenable to management and audit from a government standpoint, the policy of mandatory withdrawal of the entire corpus received in beneficiary accounts has associated challenges. It prevents beneficiaries perceiving and using their account as a normal savings account and dissuades the development of a savings habit. It encourages the business correspondent network managers to send their agents to service beneficiaries only on 'pay-day', and to avoid offering a perpetual/regular banking presence in the village, as is the intent behind financial inclusion. It narrows the choice for the beneficiaries and creates a lock-in with the specific agent assigned to disburse the funds. Of course for the business correspondents, it creates the additional burden of liquidity management and logistics for handling large sums of cash on specific days, instead of even distribution throughout the month.
- With more schemes and programme being added, these challenges will only be compounded unless the beneficiaries are allowed choice to make withdrawal anytime and anywhere (though agents, at branches and ATMs), according to their needs and preferences.

#### **I. Lack of focus on enhancing the current programme**

- More drives to open new bank accounts for the beneficiaries linked to *Aadhaar* are planned.<sup>33</sup> However, more than 105 million accounts have already been opened under the FI and EBT programmes, and a vast majority are lying dormant. A strategy to upgrade these accounts to basic savings bank accounts,<sup>34</sup> intended to be at par with mainstream accounts and link them to *Aadhaar*, would be more efficient and constructive.
- Likewise millions of post office accounts are employed for disbursements of G2P (nearly 50% of the MGNREGA payments are channelled through post office accounts). There is a need to augment these accounts by establishing linkage to the beneficiaries' *Aadhaar* identity.

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<sup>33</sup>Media reports: e.g. The Economic Times, 24 December 2012, [Account opening rush for direct cash transfers leading to bank goofups](#)

<sup>34</sup>[RBI notification of August 10, 2012 on Basic Savings Bank Deposit Account](#)

## Appendix

There has been a raging debate on the desirability of direct benefits transfer. In this section, we present our perspective on why we believe they are desirable and how they can positively impact the beneficiaries as well the central and state governments.

### Is Direct Transfer of Benefits / Entitlements Desirable?

Central and state governments in India, under various social welfare and poverty reduction programmes, disburse over US\$24 billion<sup>35</sup> worth of monetary benefits every year. Non-monetary benefits and subsidies on food<sup>36</sup>, fuel, fertilisers, health and education account for another US\$49 billion<sup>37</sup>. Despite constant innovation and use of technology, the delivery mechanisms for these funds, amounting to nearly 50% of the Central Government's annual budget outlay,<sup>38</sup> continue to be highly inefficient. An estimated US\$16.6 billion does not reach the desired recipients.<sup>39</sup>

Apart from the difficult tasks of building consensus around the definition of the poverty line, followed by an accurate identification of beneficiaries amongst the people below the poverty line (BPL), there are significant delivery challenges in delivering the benefits and entitlements to the real recipients. The most alarming is leakages, accounting for 75% to 80% of the total losses.<sup>40</sup> Common causes of leakages are: ghost, duplicate and ineligible beneficiaries; reporting of fake assets or false utilisation of funds; abuse by intermediaries; and ineffective (frequently non-existent) audit mechanisms. Dependence on manual processes and systems together with a lack of robust, full-proof methods to identify and authenticate the beneficiaries, with auditable trails, are major hurdles in transparent and targeted delivery of social welfare benefits.

Lack of choice for the beneficiaries, by tying them to a specific intermediary responsible for delivery of entitlements (be it their village head (*Sarpanch*), the assigned ration shop, or the LPG supplier) is another major obstacle that allows the intermediaries to abuse their position for wrongful gains at the expense of the poor recipients.

Despite considerable efforts over the years to deliver certain entitlements directly into the bank or post office accounts of the beneficiaries, a large part of the payments continue to be made in the form of cash, cheques or other instruments. Even in flagship schemes like NSAP (National Social Assistance Programme), over 50% payments are made through cash or alternate modes.<sup>41</sup> Moreover, while non-cash payments have a better audit-trail, the current delivery mechanisms do not alleviate the problem of ghost-beneficiaries and fake assets.

Overall, the very objective and purpose of subsidies / welfare payments is currently only being served to a limited extent and neither the government nor the beneficiaries are gaining in the process. The government, on its part, continues to bear a hefty financial burden at the cost of other economic considerations such as widening fiscal deficit. A vast majority of the needy beneficiaries, on their part, do not receive their rightful dues and continue to struggle in poverty.

Direct transfer of benefits and entitlements to the bank or postal accounts of beneficiaries, and mandating *Aadhaar* biometric identity for the purpose of account opening and to authenticate for withdrawal of funds is likely to be a fitting solution to overcome several of the obstacles. If implemented well, it could ensure targeted outreach, address inefficiencies, ensure equitable distribution, as well as enable the government to achieve the goal of reducing the fiscal deficit, which would have a salutary effect on the health of the economy at large.

<sup>35</sup>[Electronic and Mobile Banking in India: Gearing-up for Growth, MicroSave Policy Brief # 1](#)

<sup>36</sup>Including public distribution system and mid-day meals schemes

<sup>37</sup>[Direct Cash Transfer: Anand Rathi Equity Report, December 2012](#)

<sup>38</sup>[Plan outlay 2012-2013](#)

<sup>39</sup>[Inclusive growth and financial security. \(2010\), McKinsey and Co.:](#)

<sup>40</sup>ibid

<sup>41</sup>ibid