HCS MAIN EXAM

Direct Benefit Transfer

Direct Benefit Transfer or **DBT/direct cash transfer/cash subsidy** is an anti poverty programme launched by government of india on 1 January 2013. This program aims to transfer subsidies directly to the people living below poverty line.

The primary aim of this Direct Benefit Transfer program is to bring transparency and terminate pilferage from distribution of funds sponsored by Central Government of India, In DBT, benefit or subsidy will be directly transferred to the citizens living below poverty line. No subsidy will be given to those people who don't require it

A popular strategy adopted by many countries for reducing poverty is direct cash transfers or progressive redistributive transfers, an idea favoured by current Indian policymakers. Although the proposal for direct cash transfers in lieu of subsidies for kerosene, LPG and fertiliser was first mooted in the finance minister's budget speech for 2011-12, it has only recently received major attention with the launch of the Direct Benefits Transfer (DBT) Programme.

The Direct Benefits Transfer Programme has been hastily launched in 20 districts. But there is evidence to prove that transferring purchasing power can have a socially desirable outcome only where there is a strong rural infrastructure and easy access to banks, schools and hospitals

As India's Twelfth Five-Year Plan (2012-17) comes into force, policymakers are confronted with the challenge of ensuring growth that is sustainable and inclusive. The Indian economy's transition to a higher rate of growth has been seen as a vehicle for reducing poverty and improving living standards for a population of 1.2 billion, especially those belonging to the lowest quartile of the economy.

The DBT Programme was launched on January 1, 2013 in 20 districts of 16 states in India. Under the present structure, the programme covers 26 of the 42 schemes run by the government. These include pension schemes, maternity benefits, scholarships and the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). Implementation of the programme rests on the pillar of the Aadhaar biometric identity card. Electronic transfer of payments to beneficiaries will be leveraged through the Unique Identification

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Authority of India's (UIDAI) Aadhaar card-enabled bank accounts or post office accounts. The government intends to expand the Direct Benefits Transfer Programme to the entire country by the end of 2013, and convert all government welfare schemes and programmes to Unique Identification Authority-driven cash transfers.

Under the 2010 subsidy framework, the government spent $28.6 billion or 2% of its GDP on poverty alleviation programmes like the MGNREGA, food distribution through the public distribution system (PDS) and health insurance coverage for below-poverty-line families through the Rashtriya Swasthya Bima Yojana (RSBY)

(1). However, widespread corruption has led to "leakages" and under-delivery of government benefits to beneficiaries. It has also increased the fiscal deficit to 5.7% of GDP

(2). To add to these woes, a study by the Asian Development Bank found that food subsidies have resulted in an insignificant reduction in the poverty gap for India and, quite surprisingly, 70% of the beneficiaries were non-poor

(3). These findings reflect former Prime Minister Rajiv Gandhi's famous comment in the 1980s that only 15 paise of every government rupee handout reaches intended beneficiaries. According to Manmohan Singh, cash-based transfers have the potential to "improve targeting, reduce corruption, eliminate waste, control expenditure and facilitate reforms"

(4).But will the DBT Programme plug leakages by side-stepping poor supply-side management and improving targeting of beneficiaries? Or will it only change the modalities of transferring government handouts and reduce government administrative functions without any significant effect on poverty reduction?

Reducing corruption and administrative costs

Under the Aadhaar-based direct cash transfers, electronic transfer of benefits directly into beneficiaries' bank accounts is expected to reduce bureaucratic red tape. Middlemen are often blamed for rent-seeking and siphoning off parts of the subsidy, leading to enormous waste of financial and physical resources meant for the poor. Therefore, even if the same amount of subsidy is disbursed the programme can be expected to deliver at least a greater share of the subsidy than that which reached targeted recipients earlier.

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Presently, a recipient has to ascertain his identity and eligibility for each of the different welfare schemes

(5). The DBT Programme will allow the beneficiary to receive multiple welfare payments through the single platform -- the Aadhaar card -- thereby reducing his administrative costs. Also, using the Aadhaar platform will lead to a drop in multiple and 'ghost' beneficiaries

(6). This is because the Aadhaar infrastructure can address leakages that arise due to "identification and authentication errors". If implemented correctly, the programme does have the potential to minimise government expenditure and improve societal welfare.

Challenges and the question of feasibility

International success stories of cash-based transfers -- like Brazil's Bolsa Familia and Mexico's Oportunidades programme -- involve targeting and conditions for transfers

(7). For instance, in Bolsa Familia, families below a particular income threshold are provided grants on fulfilling certain conditions like attendance at government clinics and 85% school attendance. Similarly, Oportunidades entails family members, especially mothers, to meet various time-bound conditions like involvement in self-care courses for women and voluntary community labour

(8).These programmes have been successful because of the presence of a strong social support infrastructure in crucial sectors like healthcare and education. Public services in India, on the other hand, are not mature enough to support cash transfer programmes. For instance, if healthcare schemes are converted to cash transfers, lack of a well-funded public healthcare system that provides access to preventive and curative care, unlike well-funded public healthcare provisions in Brazil, could force the poor to turn to expensive private health services.

In the case of cash transfers of food subsidies, policymakers have to ensure that the money provided is sufficient to buy non-subsidised food in deregulated markets

(9). Cash transfers under the Direct Benefits Transfer Programme are not indexed to the price level. Therefore, even though many critics support cash

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transfers for old age pensions, maternity benefits and scholarships, non-indexed cash transfers of physical commodities and services are likely to erode the purchasing power of beneficiaries. This is bound to augment starvation and poverty whilst accruing gains to government coffers in the form of reduced welfare subsidies. Thus, when one talks of the “libertarian doctrine” of transfering purchasing power directly into the hands of the poor and empowering them to make their own choices, one should keep in mind that purchasing power may be eroded in the absence of safety nets such as indexation. Further, “even if some indexation does happen, small delays or gaps in price information could cause significant hardships” for people who lead a hand-to-mouth existence

(10).Targeted beneficiaries at the ground level are also opposed to cash transfers as an alternative to the PDS

(11). In poorly developed rural markets, consumers will most likely be greatly affected as local traders and middlemen could increase prices if the PDS is disassembled. Also “special groups such as single women, disabled persons and the elderly” are most likely to face difficulties in withdrawing cash and buying food from distant markets

(12). Subsidised food from the PDS is an important source of food security for millions of poor Indian families that lead subsistence lives. It also erased about one-fifth of the “poverty gap” at the national level in 2009-10 (13). Therefore, there have been strong demands to strengthen the National Food Security Bill and avoid hasty transition from food entitlements to cash transfers (14).Moreover, even if the state rectified its poor supply-side management, people are unlikely to avail of goods that improve their nutritional status or prevent disease. For instance, in Kenya, giving cash did not result in people buying bed nets that prevent malaria. In the book Poor Economics, the authors explain why a man from Morocco who didn’t have enough money to buy food bought a television set instead

(15). The findings reveal that poor understanding of the root causes is the reason behind the failure of many anti-poverty policies. Economists have reasoned that using appropriate “behavioural nudges” or incentives is essential to achieving programme objectives. Thus, the mere transfer of purchasing power does not imply that socio-economic targets will be met.

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In conjunction with the above problem, direct transfer of cash benefits may lead to adverse "distributional effects of benefits" within the family. Amartya Sen points out that replacing food subsidies with cash may "hurt girls and kids," especially in a patriarchal society like India where men (the head of the house) who receive cash in such programmes often squander the money on liquor or gambling. Women, on the other hand, are usually recipients of food handouts and are more likely to use the food in improving the nutritional status of their children. Reflecting on these ground realities, Sen says: "Direct access to food tends to favour children rather than adults, and girls rather than only boys, thus working against biased social priorities common in the subcontinent"

(16). Adding to this discussion, Esther Duflo says: "The outcome of a cash transfer is robust when the beneficiary is a woman or the household is headed by a woman"

(17). This is likely to accentuate "intra-household inequity" (Duflo) unless it is ensured that monetary handouts are used for nutritional purposes (or the required purpose) and divided within the family in a way that addresses the problem of girl-child deprivation.

Logistical and operational problems may also obstruct beneficiaries from realising the benefits of the Direct Benefits Transfer Programme. Logistical issues led the government to scale down the reach of the programme one day before its implementation, to 26 schemes as against the initial plan for 29. Moreover, the banking system in rural areas is not developed enough to facilitate cash transfers on the proposed scale. According to a World Bank survey, only 35% of Indians and 21% of the poorest quintile have accounts in formal financial institutions

(18). The survey also stressed that the poor face difficulties in opening bank accounts without policy and administrative support, even in urban areas like Delhi. This implies that the transition to opening bank accounts could have serious implications on the wellbeing of the poor. For example, delays in opening a bank account will not only prevent the prospective beneficiary from accessing cash to buy food, but also raise food prices as those with bank accounts will increase demand in the food market. To ensure speedy realisation of this scheme, therefore, the Reserve Bank of India needs to expand its rural banking network.

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Another mammoth task for the government is to ensure Aadhaar coverage right across the country by the end of this year. Currently, over a dozen districts which are part of the programme have less than 50% Aadhaar coverage, with one district enjoying only 4% Aadhaar penetration. Swift and efficient implementation of the programme would require collaboration between various central and state departments, UIDAI, and banks. Failures in any of these units or technological glitches in proposed micro-ATMs could cause huge disruptions. A time lag in payment delivery has been one of the main reasons why the MGNREGA has not had the expected transformational impact.

Rethinking anti-poverty measures to achieve inclusive growth

While the programme is in the initial stages of implementation, critics warn against hasty implementation, fearing that it could lead to “massive social exclusion”

(19). Similar concerns have also been raised by government allies like Sharad Pawar who has argued that using outdated poverty lists at this juncture would result in large-scale exclusion errors

(20). Doling out cash may result in inflationary pressures without any significant impact on human development. Transferring purchasing power can have a socially desirable outcome only in the presence of a support structure that encourages compliance with socially desirable behaviour. This would entail strengthening rural infrastructure, providing easy accessibility to banks, schools and hospitals. Absence of such incentives may endorse expenditure on goods that do not result in social gains. Therefore, the success of the programme hinges on the co-existence of state provision of essential goods and services.

In conclusion, the debate is not about the efficacy of cash-based transfers but about their modality, targeted beneficiaries and overall role in India’s current growth and development strategy. According to a World Bank study, there is a correlation between cash transfer programmes and voting patterns. According to it, beneficiaries have supported the party that distributes monetary benefits

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(21). Although this study bodes well for the current government, provision of good quality public services is absolutely crucial given the reasons underlined above. Achieving the objectives of inclusiveness contained in the Twelfth Five-Year Plan would require the scheme to be supplemented by public provision of essential goods and services, rather than the former substituting for the latter. Otherwise, the current initiative may end up being a half-hearted attempt at pro-poor populism.

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