International Policy Centre for Inclusive Growth

The International Policy Centre for Inclusive Growth is jointly supported by the Poverty Practice, Bureau for Development Policy, UNDP and the Government of Brazil.

One pager No. 199

May, 2013

India's Direct Benefit Transfer and Public Distribution System: **Can They Work Together?**

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The recently announced Direct Benefit Transfers (DBT) programme of the Government of India is being hailed as a 'game changer'. Many in the media and social commentators have been quick to compare it with the Brazilian *Bolsa Familia*. Unfortunately both the critics of cash transfers as well as the supporters seem to have got it wrong. The DBT programme merely provides for the efficient transfer of money from existing cash transfers (mostly social pensions and scholarships for students) directly to the recipients' bank accounts, leveraging information technology and the newly launched biometric platform (the Unique Identification/Aadhar Number) and combining it with an innovative banking solution using business correspondents.

The idea of the DBT programme 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. The programme is not creating any new cash transfers but consolidating the delivery of the existing schemes.

The real 'game changer' in this is twofold: the idea of universal financial inclusion, and the timely transfer of benefits to entitlement holders without intermediaries and unnecessary paperwork. The use of Aadhar enables authentication and prevents leakages almost by design. The IT and financial architecture of the programme have the potential of transformational change in rural areas, not very dissimilar to the revolution that rural and mobile telephony have unleashed over the past two decades.

As Indian's 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 to transfer pension benefits on time to some of the most marginalised sections of Indian society. With the exception of a few states such as Andhra Pradesh and Odisha, pensions often take six months to reach beneficiaries. Over the years we have also documented many cases of duplication and fraud in pension benefits. If these pensions are channelled through the new DBT architecture, it will not only ensure timely delivery to the recipient's doorstep through micro-ATMs, it will also cut down on fraud because of the Aadhar authentication of the entitlement holder. The same holds true for all the other schemes being brought under the ambit of the DCT.

The sticky point here though is the transfer of existing 'in-kind' subsidies through the DBT, especially food subsidies that use the Public Distribution System (PDS). Much of the confusion around this was created by the unclear messages sent out by the government, which has given ammunition to critics of the programme.

There are three distinct possibilities for the food subsidy transfer that the government could potentially use. The first is to replace the food with cash and dismantle the PDS. That proposal has never been considered within the government, though ill-informed comments from some sections of government created an impression that it was imminent. Even without going into the obvious demerits of this proposal, which have been extensively written about, suffice it to say that if the government adopted this approach, it would have to end the state procurement regime. That is neither politically feasible, nor can it be in the realm of consideration by any government in India, given that more than 60 per cent of the population is still dependent on agriculture.

The second approach could be to create an Aadhar-enabled PDS that is online and allows for the stock positions to be updated in real time, as has been successfully piloted in East Godavari district in Andhra Pradesh. Entitlement holders would buy their food rations from Fair Price Shops (FPS) 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 their rations, but would also free entitlement holders to buy their rations from any FPS and not be tied to a single vendor. In other words, it would ensure 'entitlement portability' that will allow PDS entitlements to be accessed anywhere in the country and bring into the fold of the PDS the millions of people, including migrant worker, who are unable to access their entitlements now. This would revolutionise the PDS by providing genuine choices to entitlement holders. It would also cut down significantly on corruption. This is also an approach which has been piloted (the COREPDS model) successfully in Chhattisgarh, though not with the Aadhar platform but with a biometric authentication system that uses a smart card that was issued for a health insurance scheme (RSBY).

The third approach would be to transfer the subsidy of the PDS benefit (similar to the kerosene subsidy transfer that is being contemplated for fuel subsidies) directly into entitlement holders' bank accounts so that they can pay the full price of the subsidised commodities to the FPS owner. Since the FPS owner would also pay the full price for commodities when collecting them from the government warehouse, the possibility of black marketeering would be eliminated. There is no clear evidence that the subsidy transfer would be better than the second approach discussed above. In reality, it could even lead to the diversion of the money meant for food grains to other household expenditures. I would, therefore, favour the second approach.

As many states in India have now demonstrated, technology is a necessary but not a sufficient condition for reforming the PDS. Instead, focusing on universalising entitlements, bringing in a robust system of greater inclusion of marginalised communities, putting in place an appropriate financial architecture, ensuring greater transparency and accountability and, above all, having the political will to see through the reforms are the most critical elements of reform. In other words, technology should not be seen as a substitute for governance.

The success of the DBT model will depend on its effectiveness in streamlining and delivering existing cash entitlements better, rather than seeking to replace in-kind transfers such as food grains with cash.

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