MicroSave India Focus Note # 106

Don't Throw The Baby Out With Bathwater! Is *Aadhaar* The Reason For Failure Of Direct Benefit Transfer Pilots?

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Background

2013 could have been a watershed year for G2P (government to person) transfers as the Government of India (GoI) decided to use the [Aadhaar unique identification system](#) for Direct Benefit Transfers (DBTs). However, the recent decision to suspend the DBT scheme for liquid petroleum gas LPG cylinders (popularly known as DBTL) seems set to reverse this. The government was so keen to see the idea implemented that the programme was launched in 43 districts in phase 1 (starting 1 January, 2013), followed by 78 districts in phase 2 (starting 1 July, 2013).[1] After initial teething problems, the scheme had started picking up speed. By 31 January, 2014 the total transfers through *Aadhaar* enabled payment system was more than Rs.3,124 crores ($490 million) of which Rs.2,574 crores ($410 million) alone was the DBTL.[2] But on 31 January, 2014 the GoI suspended DBTL creating an atmosphere of confusion and uncertainty.[3]

What went wrong in the 12 months since the launch of this ambitious scheme, prompting the GoI to suspend implementation completely? From most newspaper articles, media discussions and litigations, the general sense that has emerged is that the UIDAI is the culprit, or at least the main culprit. But we need to understand the context and dissect the process of DBT to assess whether this perception is correct or not.

The Opportunity

Aadhaar was initially meant to be a unique number to identify individuals. During the period when people were being enrolled for *Aadhaar,* banks were struggling to expand their outreach to rural areas and were also capturing bio-metric details of their customers for authentication. This was very similar to the authentication mechanism used by *Aadhaar.* Concurrently, the GoI was exploring avenues to convert subsidies and some other benefits into cash and deliver the money direct into individual beneficiaries' accounts. When combined, all these needs presented a huge opportunity for [Aadhaar as an authentication platform for financial transactions, and also for DBT.](#) Banks could save the cost of enrolling customers because UIDAI was already doing that; and GoI could expedite the roll out of transferring money directly to beneficiaries of

the multitude of social welfare schemes and subsidies in place across the country.

Implementing The System

The diagram below outlines the process for DBT. It is evident that the process is quite complex and there are multiple stakeholders involved in it. To make the programme successful, each of them must be seamlessly coordinated. Unfortunately, the evidence shows this is not happening.
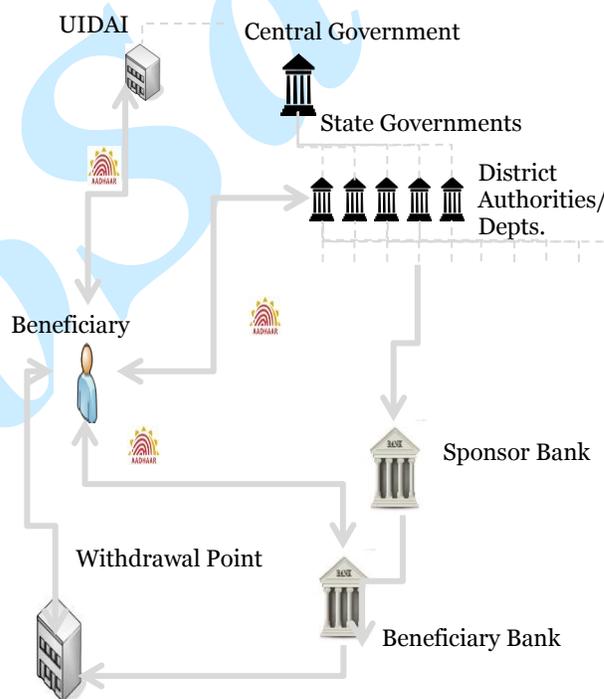
Challenges started surfacing in the early stages of implementation. Some of these are highlighted in *MicroSave'*s studies such as [Aadhaar Enabled Direct Benefits Transfer in Aurangabad](#). A few of the key challenges are:

1. In many cases, beneficiaries never receive their *Aadhaar* card, [because department of posts does not deliver it](#). Beneficiaries were never sure if their enrolment was successful, the *Aadhaar* number was generated or not, and when they would receive their *Aadhaar* card. Although UIDAI made alternate arrangements for such cases, the situation was particularly bad for those who have either lost their EID

(14 digit acknowledgement number), or worse were not given the EID slip by the enrolment agency.

2. A substantial proportion of beneficiaries do not have a bank account – often because they lack of proper KYC documents. Although the Reserve Bank of India (RBI) has provided options for banks to offer basic savings bank deposit accounts to the segment of population that cannot fulfil KYC requirements, banks are still reluctant to open accounts for them. This seems to be one of the reasons for the Mor committee recommending Universal Electronic Bank Accounts (UEBA) for all adults in India.

3. For those with accounts, the account has to be linked to or "seeded" with the beneficiary's *Aadhaar* number to effect the DBT. Since no standard process was defined for seeding, and in the initial days even bank staff were not aware or trained for this, confusion prevailed. Concerned ministries/ departments and banks did not inform the customers/ beneficiaries about the requirements for seeding. Sporadic advertisements in newspapers appeared, but these were usually published by oil marketing companies. No budget was allocated, nor was there a will to take any responsibility to seed the accounts. Therefore a huge number of beneficiaries who had bank account and also an *Aadhaar* number could still not receive DBT because their account had not been seeded with *Aadhaar* number. The situation remains almost the same even today.

4. The few lucky ones with a bank account seeded with an *Aadhaar* number receive their DBT funds in their accounts. However, in case of DBTL there is no single answer to the question, "*When will the payment be credited in beneficiary account?*" At the time of booking the gas cylinder? At the time of delivery of cylinder? As a reimbursement after the payment for the cylinder has been made? The practice varied across geographies and the companies delivering the cylinders.

5. The last step is to withdraw the money. Whereas for branch-based customers the withdrawal can be from the bank branch, ATM or through cheque, withdrawal from agent points has to be authenticated by UIDAI. In their hurry to roll out the scheme, no one cared, or perhaps ignored

the fact, that there are not many agents with micro-ATMs for *Aadhaar*-based bio-metric authentication, where beneficiaries can transact. This has been repeatedly highlighted *MicroSave*'s field research, most recently in "The Curious Case of Missing Agents in Rural India".

The combination of implementation challenges highlighted above left a lot of genuine beneficiaries unable to receive their benefits. This led to widespread discontent. The government could ill afford to have such large numbers of discontent individuals in an election year. So it took the easy option to discontinue DBTL.

It is clear that a lot was riding on *Aadhaar*. Adequate efforts were made to make *Aadhaar* enrolment a huge success. The Unique Identification Authority of India's (UIDAI's) numbers are testimony to this. 600 million individuals have been enrolled for *Aadhaar*. Compare this to 130 million enrolments for National Population Register in the same time period and in almost the same number of states.

There is evidence that *Aadhaar*-based DBT brought in efficiencies wherever a supportive eco-system was provided. This is evidenced in success stories of *Aadhaar* Enabled Direct Benefits Transfer in Aurangabad and *Aadhaar* Enabled Public Distribution System in East Godavari. Even financial experts are of the opinion that there could be significant savings because of *Aadhaar* based DBT. A recent article in "The Economic Times" talks potential savings to the tune of 1.2% of GDP if this programme is successful.

Aadhaar-based DBT needs more sustained and coordinated effort from local government, banks and business correspondents to realise its potential. We should not throw the baby out with bathwater.

It seems that the main reason for the apparent under-performance of *Aadhaar*-based DBT is that *Aadhaar* is a first-world solution in a third-world environment. For it to succeed, the infrastructure, readiness of key stakeholders and delivery systems must be in place.