MicroSave India Focus Note #124

G2P Payments: Concerted Efforts Will be the Key

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November 2015

There is increasing evidence from countries such as Pakistan, Brazil, Columbia, Mexico and South Africa that the government-to-person (G2P) payments offered through digital and branchless banking channels could be a stepping stone to financial inclusion. The Government of India (GoI) and the Reserve Bank of India (RBI) have adopted a similar path to financial inclusion in India.

The RBI had issued the operational guidelines for the implementation of Electronic Benefit Transfers (EBT)[1] in 2011. These guidelines recommend the convergence of the EBT with the Financial Inclusion Plan (FIP). EBT and FIP have a potentially reciprocal impact on each other – financial inclusion can be leveraged by the Central and State Governments to deliver benefits in a more transparent and efficient manner; and EBT could provide the much required transaction volumes to activate the largely dormant no-frills accounts.

Through the Pradhan Mantri Jan-Dhan Yojana (PMJDY), the GoI aimed to facilitate financial access for all by providing a bank account for each household. The programme also sought to leverage the direct benefit transfer (DBT)[2] payments of social benefits and subsidies to create activity in these bank accounts. However, even with the ongoing EBT payments, the increment in the balances maintained in these accounts is close to zero. For instance, as much as 39.57% of PMJDY accounts have a zero balance. *MicroSave*'s analysis suggests that this pattern is replicated in DBT linked accounts as well. This Note analyses the impediments to realising the potential of G2P payments to further the cause of financial inclusion in India.

Big Numbers, Little Impact

In the fiscal year 2015-16, the GoI will administer welfare schemes worth Rs.204,784 crore (US$39.59 billion). These schemes accounted for roughly 1.92% of the country's gross domestic product in 2014. Some of these schemes provide regular pay-outs on a weekly/fortnightly/monthly basis.[3] These micro-payments offer an opportunity for service providers to improve customer uptake and transaction volumes, in turn improving the business case. However, they are not currently being leveraged to further the goal of financial inclusion as most of the G2P payments are withdrawn in full by the beneficiaries. This is often at the behest of the State Governments (as in the case of Andhra Pradesh), or because beneficiaries do not see the account in which they receive their payments as a normal savings bank account that can used to save or carry out other banking transactions.

On the ***demand side***, *MicroSave's* research on the reasons for dormancy in no frills savings accounts (also known as basic savings deposit accounts) shows that a majority of beneficiaries open these accounts as it is a pre-requisite for availing scheme benefits. They are usually not aware that they can save and access other financial services using the same account.[4] However, the bigger challenges remain on the ***supply side.***

Weak Business Case for Banks and Bank *Mitrs*:[5]

Since about 47,278 rural bank branches serve nearly 650,000 villages in India, it is essential to have a well-functioning network of agents (Bank *Mitrs*) to ensure the success of the EBT/DBT programmes and the PMJDY. However, a 2013 survey[6] of CGAP and the RBI's College of Agricultural Banking found an effective dormancy rate of 37% among the Bank *Mitrs*. *MicroSave's* analysis found that nearly a third of the Bank *Mitrs* are unavailable at their stated locations and many have stopped offering services as the current commission rates of 1% for processing government benefits and subsidy payments are too low.

In its 2012 report, the Task Force on "*Aadhaar*-Enabled Unified Payment Infrastructure" estimated that a 3.14% DBT commission would be needed to ensure a robust roll-out of Bank *Mitrs*. *MicroSave*'s Policy Brief #11 noted that banks were losing money when handling G2P payments under the Electronic and Direct Benefit Transfers. Further, a new *MicroSave* costing exercise found that for a bank the cost of processing transactions through the agent network is at least 2.63% of each transaction. Continuation of business at current compensation levels will further increase the dormancy of Bank *Mitrs* and will force Business Correspondent Network Managers (BCNMs) to cut corners in areas such as communication, training, client protection measures, and liquidity management, thereby affecting the service to their last mile clients.[7]

[1]EBT facilitates payments to reach the intended beneficiaries through bank accounts or post office account.
[2]DBT in the case of rice, wheat, fertilizer, kerosene, and LPG which are planned to be converted from non-cash to cash subsidy.
[3]For schemes such as MGNREGA and National Social Assistance Programme
[4]See CGAP/*MicroSave* Study on "Direct Benefit Transfer and Financial Inclusion - Learning from Andhra Pradesh, India"
[5]Bank Mitr or Business Correspondent (BC) agents translates to "friend of the bank", the last mile access for banking services.
[6]2013 India: National Survey of Branchless Banking Agents, CGAP and College of Agricultural Banking
[7] See *MicroSave*'s Policy Brief #12: How a 1% DBT Commission could Undermine India's Financial Inclusions Efforts

Lack of Institutional Convergence: In its operational guidelines for implementation of EBT, the RBI defines financial inclusion as *"The process of ensuring access to appropriate financial products and services needed by vulnerable groups … at an affordable cost in a fair and transparent manner by mainstream institutional players."*

The RBI considers the EBT scheme as a part of the FIP and stipulates that the accounts opened for the purpose of EBT must also offer all the permissible financial services such as deposit schemes, overdrafts, remittances and credit. The EBT is thus envisioned as a platform to improve financial inclusion. However, the State Governments (responsible for rolling out EBT) have a separate set of objectives for EBT which is to:

- *Increase efficiency in delivering payments, reduce leakage and eliminate ghost beneficiaries; and*
- *Ensure that the money reaches the beneficiary in a timely and convenient manner.*

These differences in the objectives and priorities for the State Governments and the RBI have resulted in the lack of convergence between the efforts of the stakeholders. State Governments exercise greater control over the way EBT schemes are being implemented at the state level, the commissions paid, and other operational details.[8]

For instance, the State Government of Andhra Pradesh (AP) has witnessed tremendous success in improving efficiency and reducing leakages through the implementation of EBT and is perhaps the most successful state on many other metrics. However, it has mandated that the entire amount credited to the beneficiary account must be withdrawn within a stipulated number of days. Only then the commissions will be paid out to the banks and agents.[9,10,11]

By doing this, the Andhra Pradesh government wanted to minimise the delays/leakages and ensure efficient payments to the beneficiaries. However, the move discourages the beneficiaries from building savings balances in these accounts, which are thus perceived as "throughput" accounts. This, in turn, defeats the very purpose of financial inclusion. Moreover, the Bank *Mitrs* face cash risk as they have to carry large sums of money to the villages and sometimes to remote and seemingly unsafe areas.

Even in states where there is no such mandate the primary focus of the State Governments is still to just ensure the delivery of the G2P payments with reduced leakages rather than on promoting financial inclusion through EBT/DBT.

Instead of this approach, the State Governments could have adopted an alternate strategy to ensure the honouring of withdrawal requests. This strategy would be based on robust monitoring of the Bank *Mitrs*/ BCNMs, financial education programmes for the beneficiaries and timely resolution of grievances – all of which are in convergence with the FIP.

There are alternatives and cases of beneficiaries using their accounts effectively. See the box below.

Evidence of Real Financial Inclusion
ASHA Payments in Sheikhpura District, Bihar

Eko along with State Bank of India and the State Health Society Bihar are disbursing incentives of ASHAs[12] through BC agents in Sheikhpura District of Bihar.[13]

The pilot provided evidence that if beneficiaries are not forced to withdraw the entire amount and are provided timely service, they will leave money in their accounts and save.

At the end of 11 months of the pilot, on an average the ASHAs were saving roughly 21% of their income. This increased overtime as ASHAs have become more comfortable with the service.

"If the money is in our hands it gets spent. If it is credited on mobile phone nobody gets to know"

- Number of ASHAs = 415
- Average savings (11 months) = Rs.500
- Average savings (45 months) = Rs.2500

In addition to increasing savings, ASHAs also feel proud and empowered as they now use formal financial services by themselves and their savings are private and safe from their husbands/ family.

Conclusion

While the target beneficiaries and the channels used by social benefit schemes, subsidy programmes and FIP are the same, they fail to ensure financial inclusion as the efforts of the stakeholders are not aligned. In addition to the lack of economic viability, there are some other challenges that are likely to arise for the service providers in areas such as marketing and liquidity management support and grievance redressal mechanisms. Given the potential of social benefit schemes and subsidy programmes to drive financial inclusion, concerted efforts will be required from the Central/ State Governments, banks, BCNMs and Bank *Mitrs* to create accessibility and awareness for beneficiaries. *In a second Note we will examine ways forward to resolve these issues and create a win-win for all the stakeholders.*

[8] See "An Overview of the G2P Payments Sector in India", CGAP
[9]See CGAP/*MicroSave* Andhra Pradesh Study which states out of the 2% commission to the banks, 1% is paid upfront and 1% is paid after the entire amount has been withdrawn by the beneficiaries.
[10]This is not mandated in other states where the banks and corporate BCs propose EBT programmes to the State Government
[11]The State Government of Andhra Pradesh is conducting a pilot where withdrawals are not compulsory in the Adilabad district.
[12]ASHAs or Accredited Social health Activities are community link worker reaching out to mothers and newborns in rural India to provide health services under the NRHM. ASHAs are entitled to receive performance incentive for the services provided.
[13]Refer to *MicroSave*'s presentation on "Review of MMT Payments to ASHAs in Sheikhpura, Bihar" and Eko's presentation on ASHA pilot analysis.