

FINANCIAL INCLUSION **insights**

APPLIED RESEARCH FOR  digital financial inclusion

INDIA

FII QUICKSIGHTS REPORT DIGITIZED GOVERNMENT PAYMENTS IN INDIA QUALITATIVE STUDY WAVE 1

APRIL 2014

THE FINANCIAL INCLUSION INSIGHTS (FII) PROGRAM

The FII research program responds to the need for timely, demand-side data and practical insights on the use of mobile money and other digital financial services (DFS), and the potential for their expanded use among the poor.

The program covers eight countries in Africa and Asia at different stages of DFS development. Research was launched in fall 2013.

FII is operated by global research group InterMedia and sponsored by the Financial Services for the Poor initiative of the Bill & Melinda Gates Foundation. All FII data and research is publicly available through the FII portal: www.finclusion.org.

QuickSights reports provide initial findings from each FII research project. These reports feed into subsequent Wave Reports which synthesize the results from all projects conducted during a wave of research in a given FII country.

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DIRECT BENEFIT TRANSFER (DBT)

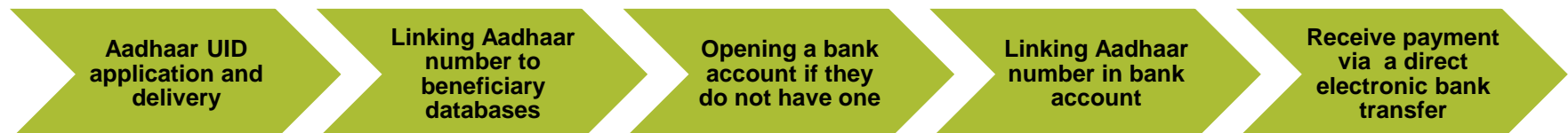
In 2012, under the Direct Benefit Transfer (DBT) program, the government of India sought to transfer social welfare benefits directly to beneficiaries' bank accounts using the Aadhaar unique identification (UID) number.

The central government runs numerous schemes, under which low-income beneficiaries receive subsidies, stipends, pensions, scholarships or other monetary benefits. Through the 12-digit Aadhaar UID number, the DBT program links beneficiaries' bank accounts with government beneficiary databases to enable direct transfers without intermediaries.

With the DBT, beneficiaries who may have been receiving these payments via cash or checks through local officials, can now receive them from the government directly, via a direct electronic transfer, without any intermediaries. The principal impetus for this program was to enhance accountability and ensure payments reach intended beneficiaries. A secondary aim is to promote financial inclusion, especially through the use of DFS.

(Source: <http://www.livemint.com/Opinion/HoDuAuSYkuz1aMrl7C4FcN/Direct-Benefits-Transfer-An-idea-whose-time-has-come.html>)

Step-by-Step DBT Process



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RESEARCH STUDY INTRODUCTION

The study focused on two aspects of DBT:

- **The experience of switching to DBT:** To understand beneficiaries' experiences with completing each step of the DBT account-activation process, as well as what they perceived to be the advantages and drawbacks of receiving payments digitally.
- **The potential for financial inclusion:** To identify the potential for DBT to further financial inclusion, in particular, through the expanded use of digital financial services (DFS). We investigated changes in beneficiaries' financial behaviors since receiving payments digitally.

Sixteen focus group discussions were conducted between Dec. 13-23, 2013, with government-payment beneficiaries across four districts in Maharashtra. These districts, Amravati, Wardha, Mumbai Suburban and Pune, were part of the initial DBT rollout in 2013 across 121 districts. This study focused on beneficiaries from three categories of schemes that disburse periodic payments – social security pensions (old age, disability and widow), post-matric scholarships (caste-based, for low income students) and National Rural Employment Guarantee Scheme (NREGS).^{*} We spoke to two groups of beneficiaries: those who receive payments through DBT and those who receive payments in non-DBT form (e.g., cash, checks, etc.).

Study Objectives:

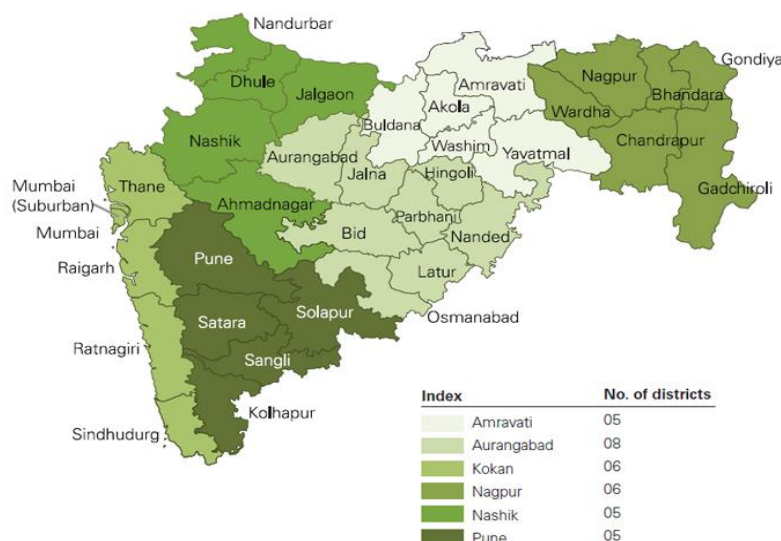
- Understand the use of DBT payments and the advantages and problems associated with them
- Understand beneficiaries' experiences with the Aadhaar UID application process
- Provide insight into the financial behaviors of those who receive digital payments
- Explore how enhanced financial services could be layered onto DBT payments
- Identify drivers and barriers to expanding DFS use
- Understand the perceived benefits and drawbacks of non-DBT payment methods

^{*} Based on the National Rural Employment Guarantee Act (NREGA)

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Participant Profile

Districts by administrative divisions



The study was conducted in four districts in the state of Maharashtra, where DBT payments have been rolled out. These were the Amravati and Wardha districts (rural areas only), and the Mumbai Suburban and Pune districts, both of which were urban.

Groups were equally divided between DBT- and non-DBT payment methods. Both DBT and non-DBT beneficiaries were recruited under pension and scholarship schemes. NREGS beneficiaries were non-DBT beneficiaries as this scheme had not been included under DBT in Maharashtra at the time of this study. Ninety-six beneficiaries were recruited across 16 focus groups.

Pensioners and scholarship students were recruited in both urban and rural settings to compare their experiences in both locations. NREGS beneficiaries were in rural areas only, since this scheme only benefits rural populations. Focus groups were equally divided between men and women.

Among non-DBT beneficiaries, a few are already receiving payments electronically into their bank accounts, due to state government initiatives to digitize payments that preceded DBT. This was the case more frequently among urban beneficiaries than among those from rural areas.

| Mumbai (Urban) | Pune (Urban) | Wardha (Rural) | Amravati (Rural) |
|------------------------|-----------------------------|-------------------------|---------------------------|
| Male DBT Scholarship | Male non -DBT Pensioners | Male DBT Scholarships | Male DBT Pensioners |
| Male DBT Pensioners | Male non-DBT Scholarships | Male non-DBT Pensioners | Male non-DBT NREGS |
| Female DBT Scholarship | Female non- DBT pensioners | Female DBT Pensioners | Female DBT Scholarships |
| Female DBT Pensioners | Female non-DBT Scholarships | Female non-DBT NREGS | Female non-DBT Pensioners |

Districts

- Urban- Mumbai Suburban, Pune
- Rural: Amravati, Wardha

Schemes

- Pension (old-age, disability, widow)
- Scholarship
- NREGS

Payment Method

- DBT
- Non-DBT (cash, check, state government-facilitated bank transfer)

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KEY FINDINGS

Direct Benefit Transfer (DBT) has the potential to help drive greater use of digital financial services but challenges remain

Beneficiaries see advantages of using DBT to receive payments into their bank accounts, including fewer delays and full receipt of payment.

But the process of switching to DBT needs to be easier and more efficient.

Benefit payments are small and do not currently help to expand digital transactions. Awareness of DFS is low but many are interested in learning more about conducting electronic transactions, including for savings.

Beneficiaries have to be incentivized to reduce payment cash-outs and to use linked digital products. Banks also need incentives to design and market products to DBT account holders.

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KEY FINDING 1: Beneficiaries see advantages of using DBT to receive payments into their bank accounts, including fewer delays and full receipt of payment.

- Most beneficiaries readily adopt DBT to continue receiving payments. They are afraid payments, via the old method, will stop. But they were unclear about DBT's benefits before the switch. Reasons for the government adopting DBT were not communicated to them.
- After switching to DBT, many now see its advantages - fewer delays, consistent payment amounts and fewer payment errors.
- Information about the schemes that beneficiaries are enrolled in and exact payment amounts is not easily available, especially for rural beneficiaries. This was particularly true before the switch to DBT. With DBT, most beneficiaries now know their payment amounts, and when they will be received.
- As a result, DBT is seen as a step towards greater accountability. However, even after switching, beneficiaries still want avenues – both physical and digital - for addressing loss, errors or delays.

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KEY FINDING 2: But the process of switching to DBT needs to be easier and more efficient.

DBT Enrollment & Use

STEP 1: Applying for an Aadhaar UID number

- Getting an Aadhaar UID number is considered necessary, but benefits are not always clear.
- The application process is time-consuming, congested and without avenues for addressing delays, losses or errors.

STEP 2: Linking UID number to beneficiary databases

- DBT beneficiaries recall providing their Aadhaar UID number to scheme officials.
- But even after linking their accounts, few have heard the term “DBT” or the tagline “aapka paisa aapke haath” (your money in your hands).

STEP 3: Linking UID number to bank account

(Opening a bank account for those who don't have one)

- Many opened bank accounts for the first time in order to start receiving their benefits. Most recall providing their Aadhaar UID number to bank officials.
- Most link their bank accounts to the Aadhaar UID number because authorities informed them that their payments would be stopped if they did not switch to the digital payment method.

STEP 4: Receiving payments via DBT

- Most are not aware of DBT-related benefits at the time of switching.
- Along with DBT-related information, beneficiaries want more information on their schemes, payment amounts, and ability to track payments.
- They want enrollment and tracking processes to be digitized, too.

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KEY FINDING 3: Benefit payments are small and do not currently help to expand digital transactions. Awareness of DFS is low but many are interested in learning more about conducting electronic transactions, including for savings.

- Payments, particularly pensions, have not been indexed to inflation, and they amount to considerably less than monthly expenses. In many cases, payments cover only one utility bill or provide extra money for unexpected expenses.
- Because amounts are small, pensioners prefer withdrawing their entire payment when it is received. They use these amounts to pay for groceries or utility bills, in cash.
- Scholarship students generally save most of their payments over a long period of time for future expenses such as marriage and further education.
- Financial literacy, and awareness about the benefits of transacting and saving through formal financial institutions, is low. But many are interested to learn more.
- The digital finance ecosystem is also underdeveloped. There is very low awareness about branchless banking, mobile money, business correspondents* (BCs) and customer service points** (agents), and their potential for payment delivery. Most beneficiaries say they cannot buy groceries or pay fees using electronic payments or mobile money.

*Business correspondents (BCs) are companies, engaged by banks, that provide banking services at locations other than a bank branch/ATM, through a network of agents.

**Customer service points (CSPs) or agents are hired by BCs to deliver services on behalf of banks.

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KEY FINDING 4: Beneficiaries have to be incentivized to reduce payment cash-outs and to use linked digital products. Banks also need incentives to design and market products to DBT account holders.

- Beyond receiving payments electronically, few beneficiaries deepen their engagement with their banks after switching to DBT.
- Banks need to provide DBT account holders with more information on tie-in products that extend electronic transactions, such as bill payments and term deposits.
- Beneficiaries, especially older and rural, need incentives to save and transact through cost-effective and convenient services. Agent and BC networks, currently present in some locations should be expanded to all rural areas. Younger, urban beneficiaries are interested in enrolling in mobile banking services.
- But studies show that banks are inadequately compensated by the government for managing payments and agent networks, and marketing additional products to beneficiaries, who generally have low-value accounts.* They lack incentives to spend resources on informing and engaging beneficiaries, or designing other linked digital products. A proposal to pay banks a 3.14% fee (of total cash disbursed) for delivering these payments has been suggested by a special task force constituted by the Reserve Bank of India (RBI) and other officials, but has not been implemented yet. Currently, some state governments pay 2% while others pay 0-1%.

*Source: http://www.microsave.net/files/pdf/PB_11_Optimising_Commissions_and_Payout_Mechanism_For_G2P_Payments_Under_Electronic_and_Direct_Benefit_Transfer.pdf

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PRODUCT & SERVICES RECOMMENDATIONS

Bettering the DBT process

Registration and tracking services can be linked to Aadhaar UID numbers.

Aadhaar-linked enrollment into schemes

- The Aadhaar UID number can be used to automate the process for enrolling in schemes.
- It can also help prove eligibility for benefit schemes (proof of low-income status, caste-certification, etc.).
- For those enrolled in longer-term schemes, it can help renew enrollment as well.

Aadhaar-linked payment tracking and reporting

- Once registration into a scheme is complete, an Aadhaar UID number should also be able to connect beneficiaries to a portal where they can track pending payments.
- For those without internet access, SMS or interactive voice response (IVR) services should be available. If none of these is accessible, physical service centers must be available so beneficiaries can check the status of pending payments, report loss, delays or errors.

Furthering DFS uptake

Savings and other financial products can be added onto DBT bank accounts to encourage digital financial services (DFS) uptake.

Interest-bearing savings accounts for students

- For scholarship students and their parents, banks can provide products to divert some portion of payments to term-deposit or interest-bearing savings accounts.

Linked utility-bill payments for pensioners

- For pensioners, who use payments for specific bills, such as electricity, gas and phone, payments can be directly linked to those bills.

Agent networks and mobile banking

- Agent and BC networks, currently present in some locations, should be expanded to all rural areas.
- Mobile banking should be provided to all beneficiaries.

Raising financial awareness

Voice-based applications can help raise financial awareness among mobile phone owners with low literacy and low digital skills.

Voice-based financial info-line for less literate and low digital skills

- For less-literate beneficiaries, who still have mobile phone access, a voice-based mobile finance info-line can help provide guidance and money-management advice.

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DETAILED FINDINGS

A. THE EXPERIENCE OF SWITCHING TO DBT

- Beneficiaries' experiences with completing each step of the DBT account-activation process
- Beneficiaries' perceptions of the advantages and drawbacks of receiving payments digitally



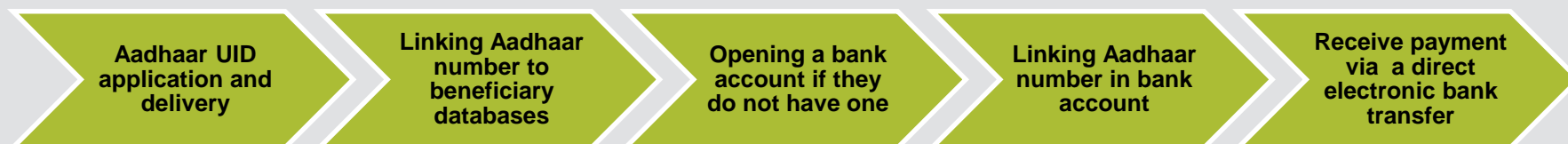
Photo From Focus Groups
Photo source: InterMedia

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THE DBT PROCESS

- To begin receiving payments through DBT, beneficiaries must:
 - Apply for a unique 12-digit number known as the Aadhaar UID number issued by the Unique Identification Authority of India (UIDAI)
 - Link this UID number with digital beneficiary databases maintained by the government
 - Open a bank account if they do not have one
 - Link this UID number with a bank account
- The government authorities and banks then must work together to link the UID numbers from beneficiaries databases to the appropriate bank account numbers to issue electronic payments directly into intended beneficiaries' bank accounts.
- The DBT program was initiated in phases, starting in January 2013, across 121 districts nationwide and 28 schemes, including scholarships, pensions and cooking gas (LPG) subsidy programs.
- The program is set to reach a total of 289 districts (close to half of all districts in India) in the first half of 2014.

Step-by-Step DBT Process



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AADHAAR- A BIOMETRIC IDENTITY FOR ALL

- Under the Direct Benefit Transfer (DBT) program, in India, the digitized government payments process begins with Aadhaar, a unique identification (UID) number for all of India's 1.2 billion residents.
- In 2009, the Indian government, under an executive order, set up the Unique Identification Authority of India (UIDAI) to issue the UID number to all residents. The number is linked to their biometric data (fingerprints, iris images and photos).
- The Aadhaar UID number is intended to serve as proof of identity, age and residence. The number can be used to open bank accounts and register mobile phone accounts.
- It can enable eligible residents to more easily access a variety of social security benefits and subsidies, including food, cooking gas (LPG), government pensions and scholarships.
- 650 million residents have received their UID numbers and are now part of the UIDAI, making it the largest biometric identity database in the world. (Source:

<http://www.livemint.com/Opinion/HoDuAuSYkuz1aMrl7C4FcN/Direct-Benefits-Transfer-An-idea-whose-time-has-come.html>)

This is UID Number

Your Photo

your aadhaar number

your demographic Information

आधार - आम आदमी का अधिकार

Aadhaar UID number
Applicants receive an enrollment receipt once their applications are approved. The 12-digit Aadhaar UID number is mailed directly to the applicant post-approval. Photo source: UID- Aadhaar

Unique Identification Authority of India/भारतीय विशिष्ट पहचान प्राधिकार
Government of India/भारत सरकार
Acknowledgement/Resident Copy - पावती /निवासी रसद

Enrolment No./नामांकन संख्या: 1216/00069/00169

| | |
|--|---|
| Name, Address and other details Arif Jamal Rafique Ahmed Ansari (Male) S/O : Rafique Ahmed Ansari Room No. 18, Slaughter House Compound, Near B. M. C. Garage Maharashtra Nagar No. 2, Bandra West S.O Mumbai (Maharashtra) - 400050 Date of Birth/जन्मतिथि: 27/01/1976 (Verified) Relationship Not Given NPR Receipt/NPR रसीद: Bank A/c/बैंक खाता संख्या: Documents: Passport, Voter ID Bank A/c Information: Registrar: | नाम, पता और अन्य विवरण अरिफ जमाल रफिक अहमद अंसारी (पुरुष) S/O : रफिक अहमद अंसारी कम नं. 18, स्लाउटर हाउस कम्पाउंड, बी. एम. सी. गैराज महाराष्ट्र नगर नं. 2, बान्द्रा वेस्ट स.ओ. मुंबई (महाराष्ट्र) - 400050 Mobile/मोबाइल: 9892579222 Email/ईमेल: ainsansari@yahoo.com Biometrics Captured: Face, Fingers |
|--|---|

Enrollment Receipt

For any enquiry, please contact: निजी तौर पर किसी भी सवाल के लिए, कृपया संपर्क करें

help@uidai.gov.in http://www.uidai.gov.in 1800 180 1947 P.O. Box #1947, Bangalore-560001

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Getting an Aadhaar UID number is considered necessary...

- Almost all beneficiaries (83 of 96) had applied for a UID number. Beneficiaries reported that nearly all their friends and neighbors had also applied.
- Beneficiaries' awareness about the Aadhaar UID number comes from media sources, visits to tehsil (sub-district) headquarters, colleges, government officials and through other payment beneficiaries in their peer groups. In villages, in addition to the usual methods, door-to-door awareness campaigns have been conducted by local government officials.

A comprehensive identity of one's own

Beneficiaries speaking on the advantages of the card:

"We feel independent . We have something of our own. Our first card. Not a credit card but still something." (Female, DBT scholarship student, Mumbai)

"To keep various identity proofs like PAN card, driving license is annoying; we can have a single Aadhaar Card, in which each and every detail of the person is included, such as finger print, eye sight detail and photographs etc....We can have all the details in a single document." (Male, DBT scholarship student, Mumbai)

INDIA

...but benefits are not always clear prior to enrollment

- Beneficiaries know the UID number can help them receive social welfare benefits directly. But many non-DBT beneficiaries don't know the details of how the number is linked to their accounts or how it will benefit them.
- Beyond serving as a basic form of identity when opening bank accounts and registering for mobile phones, there is a lack of clarity about the added benefits of having the UID number.



Biometric data such as finger-printing and iris images are collected as part of the Aadhaar UID application process.



Photo source: UIDAI website

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The Aadhaar application processing time should be reduced and steps need to be taken for addressing delays, losses or errors

- The Aadhaar UID application process is characterized by large crowds, long waits and unexplained delays in delivery. There is often only one center at which applicants can apply.
- Some reported fights breaking out because people were trying to cut through the lines.
- Applicants say there is no place where they can go to ask about the status of their application or when their UID number will be delivered.
- Twenty-seven beneficiaries said they applied, but had not received, their card after months of waiting. Several people have been waiting for more than a year.

Young, urban beneficiaries would like to digitize the Aadhaar application process

Urban, digitally literate, beneficiaries, who live in two of India's most crowded cities, would prefer it if the Aadhaar UID application process could be done online to avoid waiting in long lines.

Beneficiary 1: "Aadhaar card or voting card, if it is done online then it will be better and fast. People don't know which number form to fill and there are mistakes in the form and many times what happens, when the card has come, our names are wrong."

Beneficiary 2: "Forget the date sometimes photo also gets changed. Ladies photos goes to gents and gents photos goes to ladies."

(Males, non-DBT scholarship students, Pune)

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SCHEMES & PAYMENTS

This study focused on schemes that disburse periodic payments:

Pensions: range from INR 200 – INR 600 (\$3-\$10) a month, sometimes combined with other schemes within Maharashtra

- **Indira Gandhi National Disability Pension Scheme:** Provides monthly financial assistance to physically/mentally handicapped individuals aged 18–59 and belonging to a household below the poverty line.
- **Indira Gandhi National Old Age Pension Scheme:** Provides monthly financial assistance to persons aged 60 years and above, and belonging to a household below the poverty line.
- **Indira Gandhi National Widow Pension Scheme:** Provides monthly financial assistance to widows aged 40–59 living and belonging to a household below the poverty line.

Scholarships: amounts differ widely by caste category, includes stipend averaging INR 2000-4000 (\$30-\$65) per semester/year and tuition waiver for the course/program

- **Post Matric Scholarship for SC & OBC students:** A scholarship awarded to meritorious students belonging to Scheduled Castes (SC) and Other Backward Classes (OBC) for senior secondary school/college/university studies. Applicants must belong to economically weaker sections of SC or OBC to apply for this scholarship.
- **Post Matric Scholarship for ST students:** This scholarship is awarded for senior secondary school/ college/ university studies, to meritorious students belonging to Scheduled Tribes (ST). Applicants must belong to economically weaker sections of ST to apply for this scholarship.

Rural Employment: minimum wage in each state, for 100 days of work, range from INR 100-INR 200 per day (\$1-\$3)

- **National Rural Employment Guarantee Scheme (NREGS):** This scheme aims to provide livelihood security to households in rural areas by providing at least 100 days of guaranteed employment, in a year, to adult members of households. Employment is provided for public works and manual unskilled work, and the wage rate is fixed by the implementing state government.

The government payments sector in India is complex with many welfare schemes and diverse beneficiaries. In addition, the process of *delivering* these payments comprises an intricate network of both central and state agencies. Payments through these schemes can range from: **periodic payments** (monthly pensions, per-semester scholarships, wages for the rural employment scheme); **one-time payments** (for female newborns and their mothers, stipend for technical courses); and **subsidies** for goods (fertilizers, cooking gas cylinders, food ration and groceries).

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MODES OF PAYMENTS

Current methods for receiving non-DBT and DBT payments:

Non-DBT

- Cash (low incidence in Maharashtra)
- Checks from universities or pension authorities
- Non-Aadhaar linked bank transfers (past state government initiatives or via college)

DBT

- Aadhaar-linked DBT to bank, with payment delivery via agents
- Aadhaar-linked DBT to bank, without delivery



Non-DBT payment methods are often delayed and some beneficiaries are suspicious if intermediaries withhold some amount for themselves:

“First they used to give cash till we were in class 9th. Then when we went to 10th class and they started giving us checks. At times, there used to be no signature on the check. I also used to wonder, is it the right amount that government is providing or is it less and sometimes the checks would be delayed for months.” (Female, DBT scholarship student, Amravati)

Payment scheme amounts are small

Payment amounts have not kept up with inflation, especially for pensions. These payments represent a very small proportion of beneficiaries' expenses. Most beneficiaries rely on other sources of income or financial support.

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Scheme-related activities such as enrollment, receiving payments, making complaints are influenced by peers



Influential peers and other beneficiaries are trustworthy



Banks and government officials are not as trustworthy

- Beneficiaries' peer groups, especially their more informed members, influence people's decisions to enroll in schemes. They also help spread information about switching from cash/check payments to DBT.
- Often those with higher financial or digital literacy tend to be more influential.
- Beneficiaries also reported approaching authorities in groups about payment delays.
- Government officials in universities and at sub-district headquarters are also important sources for raising awareness. But beneficiaries do not always trust the information received from these authorities.

Onerous scheme eligibility and enrollment process

- For enrollment into the schemes, students require caste certificates and income certificates. Pensioners require proof of "living status," disability or widowhood.
- The certification process is difficult, long and sometimes expensive. Some report they have to pay bribes to expedite it.
- Yet beneficiaries, especially long-term ones, see the value in applying and renewing to receive these payments.
- The process of proving eligibility and enrollment could also be linked to the Aadhaar UID number.

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SWITCHING TO DBT

Recapping the DBT Process

Aadhaar UID application and delivery



Linking Aadhaar number to beneficiary databases



Opening a bank account if they do not have one



Linking Aadhaar number in bank account



Receive payment via a direct electronic bank transfer

आपका अधिकार, आपके द्वार
FIRM STEPS OF UPA GOVERNMENT FOR
TRANSFER OF SCHOLARSHIPS IN THE BANK ACCOUNTS OF MINORITY STUDENTS
UNDER
"DIRECT BENEFIT TRANSFER (DBT)"

DBT under schemes of Post Matric Scholarship, Merit-cum-Means Scholarship and Maulana Azad National Fellowship

DBT launched in 121 Districts in 26 States/UTs in two phases

Transfer of Scholarship amount in student's bank account directly

To obtain Aadhaar/UID Number, Beneficiaries are requested to contact Nodal Officer in the respective State/UT as per following details:

| Sl. No. | State/UT | Ministry of Minority Affairs | Ministry of Minority Affairs | Ministry of Minority Affairs | Ministry of Minority Affairs |
|---------|---------------------------|--|--|--|--|
| 1 | Andhra Pradesh | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 2 | Assam | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 3 | Bihar | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 4 | Chhattisgarh | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 5 | Goa | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 6 | Gujarat | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 7 | Haryana | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 8 | Himachal Pradesh | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 9 | Jammu & Kashmir | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 10 | Jharkhand | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 11 | Karnataka | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 12 | Kerala | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 13 | Madhya Pradesh | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 14 | Manipur | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
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| 16 | Nagaland | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 17 | Nar Pradesh | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 18 | Odisha | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 19 | Punjab | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 20 | Rajasthan | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 21 | Sikkim | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 22 | Tamil Nadu | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 23 | Telangana | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 24 | Uttar Pradesh | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 25 | Uttarakhand | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 26 | West Bengal | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 27 | Andaman & Nicobar Islands | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 28 | Chandigarh | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 29 | Dadra & Nagar Haveli | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 30 | Daman & Diu | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |
| 31 | Lakshadweep | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary | Dr. K. K. Kishore, Principal Secretary |

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INDIA

Most switch to DBT because of pressure from program administrators, but almost all adapt well to the change

- Most DBT beneficiaries were informed by authorities in colleges or at local government offices that their payments would be stopped if they did not switch.
- For new enrollees, providing the Aadhaar UID number is advertised as mandatory. Those already enrolled were asked to submit their Aadhaar ID to scheme officials and to their banks.
- Neither the Aadhaar UID number nor the DBT payment method is legally mandatory. But the study suggested that some government officials are warning citizens of adverse consequences if they do not participate.
- **But beneficiaries have largely adapted to the new payment method. For those without bank accounts, opening a new account is not seen as a major hassle.**
- DBT beneficiaries recall providing their Aadhaar UID number to scheme officials so they could be entered into the database; they also remember providing the number to their banks.
- But even after linking their UID numbers, few had heard the term “DBT” or the tagline “aapka paisa aapke haath” (your money in your hands).
- **EXCEPTION:** Due to state government initiatives in digitizing payments that have preceded DBT, a few non-DBT beneficiaries are receiving payments electronically into their bank accounts. This was the case more frequently among urban beneficiaries than among those from rural areas. For such beneficiaries, the Aadhaar-linked DBT is not seen as a significant change.

INDIA

DBT benefits**Once beneficiaries switch, DBT is seen as way to prevent payment errors and delays**

Beneficiaries said the main benefits of DBT payments are:

- **Regularity of payment:** Payments are received on a specific date every month/semester.
- **Convenience:** Payments arrive automatically and beneficiaries don't have to go anywhere to process them.
- **Fewer incomplete payments, fewer errors:** In rural areas, beneficiaries say they find out what their official payment amount is after enrolling in DBT.
“Once my friend's brother told me that the actual money sanctioned is INR 5000 (roughly \$80), and then the college deducts their amount [talking about payment errors] and finally what we receive is INR 2000 (roughly \$30).”
(Female, DBT scholarship student, Amravati)

Note: For some older beneficiaries in remote areas, going to a bank is not convenient. If they are not literate, bank procedures are daunting and they say they would rather receive this amount by courier at home.

Need for human interaction continues after digitization

While beneficiaries see the benefits of digitization, some said they still would like an option to contact/visit officials if they had issues with their payments:

“We can at least ask the supervisor why our money hasn't arrived, but if the amount is directly deposited in bank then who do we ask?” (Male, non-DBT NREGA worker, Amravati)

“Once we connect our Aadhaar card to the bank then we will not have the hassle of going to the college [to collect the payment]...but if it doesn't get transferred on time then who will take the stand...now on college level there are social activists.” (Male, non-DBT scholarship student, Pune)

INDIA

DETAILED FINDINGS

B. DBT'S POTENTIAL FOR FINANCIAL INCLUSION

- Potential for digital payments to expand overall financial inclusion, in particular, through the expanded use of digital financial services (DFS)
- Changes in beneficiaries' financial behavior, if any, since receiving payments digitally

Pictures From Focus Groups
Photo source: InterMedia



INDIA

Currently, there is no increase in digital transactions

- Many opened bank accounts for the first time to start receiving their benefits via DBT.
- But, as beneficiaries begin receiving digital payments, they do not move onto transacting digitally with the money they receive. Bank accounts only serve a limited role as interim repositories for receipt of payments.
- Currently, because payment amounts are small, beneficiaries either withdraw all of their money to use for their expenses or store most of the amount in the bank account, without any additional digital use.

Scholarship students receive payments yearly or per semester. When they receive the payments, they:

- **Make cash withdrawals** and spend a small portion of this payment on transport, entertainment or buying books, or give a portion towards household expenses.
- **Save a majority** of it in their personal or joint saving accounts held with parents. Parents have substantial control over these accounts and instruct their children to save for their further studies, wedding expenses, or other family needs.

Pensioners receive several payments through the year. Most of them tend to withdraw all their money at once.

- For urban beneficiaries, this payment is a small part of other income they earn monthly.

They use it for the payment of specific regular bills (electricity, mobile, milkman, etc.), or use it for special purchases such as gifts for family members or buying meat for special meals.

- For rural beneficiaries, these payments represent an important means of paying monthly expenses (combined with other family members' incomes).
- Holding this payment in cash is important as most of their transactions are cash only:

"We feel why to do up and down repeatedly. Better to withdraw it all at once." (Female, non-DBT pensioner, Pune)

INDIA

Receiving electronic transfers rarely leads to a deeper engagement with banks

- There is low awareness among beneficiaries about the benefits of transacting and saving through formal financial institutions.
- Beyond receiving payments electronically, few beneficiaries deepen their engagement with their banks after switching to DBT.
- Only a few (urban, young) learned more about electronic banking, interest-bearing accounts, or the diverse financial products that banks provide.
 - Beneficiaries lack information on how to pay bills electronically, save money in interest-bearing accounts and deepen engagement with their banks. Many beneficiaries are interested to learn more, about how to save and conduct electronic transactions.
 - Banks need to provide beneficiary account holders with more information on tie-in products that extend electronic transactions, such as bill payments and term deposits, rather than cashing out.
 - For rural beneficiaries, visiting a bank can be time consuming and confusing. They need incentives to help them save and transact more cost-effectively and conveniently (i.e., agents delivering payments to beneficiaries).
 - Some digitally savvy beneficiaries (especially young and urban) say they are interested in mobile banking options.

The Banks' Perspective

Banks lack incentives to inform and engage beneficiaries who generally have low-value accounts. Studies show that banks are inadequately compensated by the government for managing beneficiaries' payments.* A proposal to pay banks a 3.14% fee (of total cash disbursed) for delivering these payments has been suggested by a special task force constituted by the Reserve Bank of India (RBI) and other officials, but has not been implemented yet.

*Source:

http://www.microsave.net/files/pdf/PB_11_Optimising_Commissions_and_Payout_Mechanism_For_G2P_Payments_Under_Electronic_and_Direct_Benefit_Transfer.pdf

INDIA

Mobile Money: A future path for DBT disbursements?

Mobile phone use is high

The majority of beneficiaries have access to a mobile phone. Among its stated advantages are ease of communication and immediacy.

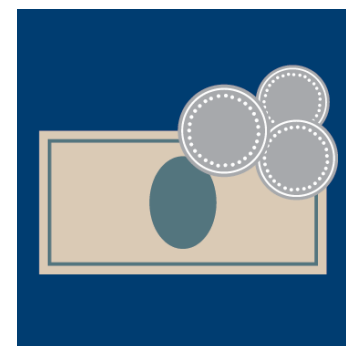
Younger students are more likely to own their own phone. Most say they have no difficulty with interfaces – if they don't know how to use an application they ask for help from friends or peers. The more digitally literate use games, the internet, Facebook, chat and access links online.

NREGS workers can make phone calls and load music onto their phones, but most do not feel comfortable sending text messages.

Most pensioners, especially in rural areas, do not know how to make a call or store numbers in the phone. They use others' help to place calls.

- DBT aims to use mobile money accounts to disburse payments to beneficiaries. Banks are also exploring adding mobile network operators (MNOs) as BC partners to disburse payments to beneficiaries.
- Currently, awareness and uptake of mobile money products among beneficiaries is low, and India's mobile money ecosystem is in an early stage of development. In this context, most beneficiaries in the study did not think it would be useful to receive their payments via mobile money.

"Now say, I have to pay my loan amount to the bank, I cannot tell them 'switch on the phone I want to transfer the money to your account' isn't it, or say, for example, the milk bill is pending and I have received my scholarship on my phone, how will I give it to him..." (Male, non-DBT scholarship student, Pune)



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