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# IS THERE SUCH A THING AS A "DIRECT" CASH TRANSFER?

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# IS THERE SUCH A THING AS A "DIRECT" CASH TRANSFER?

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In this article, we focus on three forceful arguments that have been made in favour of "direct" cash transfers: One, cash can be delivered directly to the beneficiaries by removing many layers of intermediaries that are typically involved in delivering other benefits such as subsidised food in the Public Distribution System. It has been argued that since intermediaries are often corrupt, transferring cash directly to beneficiaries will eliminate corruption. Two, technology could be used at all steps of the transfer of benefits and thus we can track the flow of money from start to end, which will make the flow of cash entirely transparent. Three, direct transfers are instantaneous. These arguments have been used by proponents to build support for direct cash transfers alternative to other forms of benefits transfer. We examine these claims empirically.

Over the last decade, there has been tremendous global attention to cash transfers from governments to citizens as a means of addressing poverty, inequality and other desirable policy goals. The attention was spurred by the success of large cash transfer programmes in the Americas, which were found to be highly effective (for an overview, see Garcia and Moore 2012). There is evidence in some cases that cash transfer programmes were able to mitigate poverty, reduce inequality, improve school enrolment and increase women's access to health services. The success of such interventions especially in Brazil and Mexico led to

[1] The authors are all engaged in the 'Combating corruption with mobile phones' project led by the Program on Liberation Technology at Stanford University. This is a collect project and we would like to acknowledge the contributions of all the members in building the knowledge-base for this article. You can find a list of all the members at http://liberationtechnology.stanford.edu/research/combating_corruption_with_mobile_phones/. Affiliations of the main authors of this paper are as follows: Vivek S. - Stanford University; Rajendran Narayanan - Cornell University; Sai Chand Chintala - Society for Social Audit, Accountability and Transparency; Rajesh Veeraraghavan - University of California, Berkeley; Dipanjan Chakraborty - IIT Delhi and Vibhore Vardhan - UC Berkeley. We are grateful for the support provided to us by various activist organisations and by our home institutions. Among them, we would like to particularly acknowledge Sowmya Kidambi, Nirmala Tamineni, Venkatesh and Aaditeshwar Seth without whom this paper would not have materialized. Sudha Narayanan, Jean Dreze and Reetika Khera read our initial drafts and provided valuable feedback. We are also grateful to Larry Diamond without whose support, this project would not have taken off the ground.

numerous studies on cash transfer programmes in other parts of the world, making it one of the most studied forms of antipoverty interventions in the recent decades.

In this context, many in India have argued for the state to withdraw from providing services and instead achieve those policy goals by transferring cash. For example, an argument has been made to dismantle the Public Distribution System (PDS) and to provide the subsidy as cash to the beneficiaries (Kapur, Mukhopadhyay, and Subramanian 2008). Mixed evidence from studies of cash transfer programmes has led to a robust debate on the efficacy of cash transfers to achieve various policy goals. There has also been a vigorous debate on whether the experience of Brazil or Mexico could be reproduced in the Indian context (for an excellent overview, see Khera 2014).

The debate on whether cash transfers instead of services would be more effective in improving poverty, inequality, health, education and other key policy goals is an important one to be had, and that has rightly been the focus of the debate so far. In this paper, we wish to examine a different set of claims on cash transfer programmes that have received scant attention in academic debates. These claims were made by the Government of India (GoI) in justifying the introduction of the 'Direct Benefit Transfer Scheme' (DBT)[2], the most articulate for of which could be found in a press statement made by two senior Ministers of the United Progressive Alliance in a well-publicised press conference on November 27, 2012[3].

The GoI moved away from the academic emphasis on the efficacy of cash over services and instead made a case for *direct* cash transfers based on four arguments: (1) Benefits can be

[2] DBT is a cash transfer programme initiated by the UPA government in 2013. This comprised of depositing a cash subsidy in the bank accounts of individuals. A part of the programme involved existing cash transfer programmes such as pensions - with the difference that transfers would now be made to a bank account. The other part comprised of cash deposits in lieu of price subsidies in products such as gas cylinders.
[3] These were the former Finance Minister, P. Chidambaram and the Minister for Rural Development, Jairam Ramesh.

delivered directly to the beneficiaries and intermediaries would be eliminated. (2) The use of technology in the process will help monitoring cash flow from end-to-end, which will make the system highly transparent. (3) The process is instantaneous and thus it will avoid long delays in transferring benefits, which is common in welfare programs. (4) The use of the Aadhar infrastructure will help in eliminating duplicate payments to the some beneficiaries. GoI argued that these four factors would improve the effectiveness of cash transfers by reducing corruption that is endemic in service delivery. Direct transfers will thus be a "game changer", the Ministers argued.

The media briefing was widely reported including in the New York Times which reported that "India eliminated a raft of bureaucratic middlemen by depositing government pension and scholarship payments directly into the bank accounts…in a bid to prevent corrupt state and local officials from diverting much of the money to their own pockets...some officials and economists see the start of direct payments as revolutionary" (Harris 2013). The argument that direct transfers will eliminate intermediaries and that transfers will be instantaneous has been repeated consistently in the media since, and it is not uncommon to find commentators arguing for cash transfers as if its effectiveness has been established beyond doubt.

The argument that *technology mediated cash transfers* [henceforth, 'direct transfers'] will improve efficiency by removing intermediaries has got little attention in academic debates in India or abroad. In general, cash transfer refers to idea of transferring the benefit in the form of cash rather than the government purchasing some commodity and transferring the subsidy through it. In a different case, an NGO called "Give Directly"[4] encourages people to donate through a mobile based cash transfer mechanism to recipients – rather than donate through governments or through NGOs that take the donation and then pass it on to the recipients. In

[4] http://givedirectly.org

this case, 'directness' refers to the idea that people can bypass the NGO in the cash flow of their donations – but there is no claim that there are no financial intermediaries involved in the process, which was the crux of GoI's argument.

We found one other example that made the claim that technology mediated transfers removed middle-men and thus reduced corruption. This was in a pilot programme in Afghanistan to pay salaries of teachers and police personnel through mobile phone instead of cash payments through intermediaries, as was traditionally done[5]. USAID, which funded the pilot, mentioned in its website that removing intermediaries in payment of salaries lowered corruption by 30% for police personnel. As in India, the claim of efficiency was widely reported in the media but the estimates were based solely on anecdotal evidence, likely based on the experience of one police officer[6].

An audit report of the pilot painted added, "So little information exists on mobile money in Afghanistan that it is difficult to gauge what the project's results should have been" (Office of Inspector General 2014). The report stated that multiple grants for mobile money projects in Afghanistan have failed to take off. Four-hundred teachers who were registered to get salary through mobile phones did not exercise that option and only 15 of the 87,815 people who registered to pay utility bills through mobile phone used the service - all of them were USAID employees.

There is no systematic research that we know of, which examines whether or not direct transfers will be able to remove intermediaries, transfer payments instantaneously and do this with a high degree of transparency. While there is no research on the organizational impact of direct transfers, there are interesting parallels in the realm of technology and organizational

[5] The focus here is on the idea of removal of intermediaries, rather than on cash versus services.
[6] One of us requested the study on which the estimate was based from USAID using the US Freedom of Information Act on June 30, 2014. The response received on 15-Sep-2014 mentioned that this was not based on a study but on anecdotal evidence.

change. The notion that technology enabled cash transfers will be "a game changer" and "revolutionary" embodies the spirit of techno-utopianism, which has a long history in information technology initiatives for development[7]. There have been many technology-centric projects that promised to revolutionise education, eliminate corruption and achieve other socially valuable goals that have completely failed to achieve what they started out to do, even though they all started with similar notes of confidence.

There is an even longer history, dating back to the early periods of the "information age", of claims that technology will cause radical changes in organisational structures across societies especially by removing the need for intermediaries[8]. As John Seely Brown and Paul Duguid demonstrate (Brown and Duguid 2002), that there is a long history of arguments that technology will *disintermediate* - and an equally long history of these arguments being proved wrong.

Despite a long history of technology's failure in disintermediating or bringing about revolutionary changes in accountability, there is today an uncritical support to argument that direct transfers will eliminate intermediaries and corruption. The appeal is reflected in the news articles on DBT in India and the coverage of USAID pilot in the United States. As Duguid and Brown argue in their book, the key problem with these arguments is that they focus only on the flow of information and they ignore organisational, political, and other aspects that contribute to the functioning of the system.

In this paper, we argue that the point made by these authors is valid in the case of direct transfers as well. Merely introducing technology will not lead to a reduction in corruption, timely payments or an accountable administration. Unless IT platforms are accompanied by

[7] Pitkin (2001) provides an overview of the critique on techno-utopianism in development. Evgeny Morozov has made poignant arguments against the idea that technology could be used to radically improve the nature of democratic rule (Morozov 2013).

[8] The most forceful advocate of this position in the recent past is Clay Shirky who argued ICT will remove the need for civil society organizations to mediate in organizing protests (Shirky 2008).

other institutional mechanisms and political will, it is unlikely that we will see radical changes that were promised in the press conference. In this paper, we examine these claims through a case study of one of India's most technically-sophisticated direct transfer mechanism.

## NEGATIVE CASE STUDY

The authors of the paper are engaged in a project to track transactions in various development programmes including the National Rural Employment Guarantee Act (NREGA), Public Distribution System (PDS), social security pensions, public health and education. We have spent the last two years tracking the process through which entitlements are delivered to people in three states viz. Andhra Pradesh (undivided)[9], Bihar and Chhattisgarh. In the process, we observed a difference between the confident rhetoric on direct transfers and ground realities. We have documented one such case in this paper.

Case studies in general provide the reader with a detailed account of a phenomenon through a particular case, which helps build a theoretical understanding. A negative case study, such as this, provides a contrast to an existing narrative, and thus asks us to consider new conceptual possibilities. In this case, we offer a narrative that is contrary to the idea that direct transfers will eliminate intermediaries, be instantaneous and devoid of corruption.

The case selection here is meant to provide an illustration of the limits of technology and it is not meant to be representative of direct transfer programmes in any region. In other words, we do not intend to make the claim that direct transfers are ineffective and corrupt. The limited purpose of this article is to temper the unbound enthusiasm for direct transfers and for technology by establishing that mere rollout of technology will not lead to said outcomes automatically.

[9] Andhra Pradesh divided into two states in 2014. The project is on in one district of each state.

## CASE SELECTION

The case study is drawn from our work on NREGA in Andhra Pradesh (NREGA-AP) that had the most sophisticated technology platform for direct transfers in in India. Since we are discussing direct transfers, we should have ideally studied the Direct Benefit Transfer scheme (DBT) that was announced by the Ministers in the press conference instead of studying NREGA. But, despite extensive search we were not able to find any information on the transactions under DBT online, which made it impossible for us to evaluate the government's claims. The fact that no information was available in itself demonstrated that the use of technology will not automatically lead to transparency.

In any case, NREGA offered an alternative that had all the features of direct transfers that we could use for an empirical study of the transfer process[10]. In order to make a viable comparison, we looked only at the flow of cash once the government initiated the transfer until it reached the beneficiary, and ignored other payment related issues in NREGA[11]. At this stage, there was no difference in the process of direct transfer in 'pure cash transfer' programmes and NREGA.

The technology platform in NREGA-AP was created with the explicit purpose of curbing corruption and ensuring timely payment of wages to the beneficiaries. In fact, the measures to make the programme transparent were so extensive that there is no parallel to such an initiative internationally[12]. The fact that AP had the most sophisticated technology platform and also the most advanced non-technology mechanisms offers us a chance to assess the

[10] In other words, we could not evaluate the claim of whether cash versus work was more effective, as is common in academic debate – but we could easily study the process through which cash is transferred from government to citizens.

[11] For example, payments can be delayed in NREGA if attendance of the workers is not recorded on the computer. We have ignored all such cases and have focused on what happens once the government initiates the transfer of cash. At this stage NREGA is comparable to cash transfer programmes.

[12] Apart from a detailed website, AP instituted India's most thorough system of social audits (Veeraraghavan 2013). Each Panchayat is visit every Panchayat of the state twice a year in an information sharing exercise, and there is a team of 12,000 auditors in the state to ensure that every village is covered.. There is no other example of such a transparency initiative with such an extensive investment.

claims on direct transfers in the best-case scenario in which we have every reason to expect technology to deliver.

While the IT platform and basic administrative processes were uniform across Andhra Pradesh (AP), there were significant differences in the socio-political context within the state with related differences in efficacy of the local administration. This case study draws from our work in one Mandal (sub-district unit), in the Telangana region of undivided AP.

The choice of location was determined by our partnership with a local activist. Our partner chose to work in that part of AP since it had one of the worst records in implementing NREGA[13]. Since the case study is based on a relatively poor performer, we cannot generalize the observations in the case study to the rest of AP. As we argued below, this does not compromise the design of a negative case study, the purpose of which is to counter an existing narrative by presenting the existence of an alternate reality without any claim that the case selection is representative of a larger reality. We have chosen the strongest case of technology mediated direct transfers, and will demonstrate that it is not devoid of the implementation problems that affect other forms of benefit transfers.

## FIELDWORK

The fieldwork could be broken into several parts. Rajesh conducted a 12 month long ethnographic study of NREGA in Andhra Pradesh with a strong focus on technology as a part of his doctoral research at UC Berkeley. This work provided us with the contextual background to the implementation of NREGA and the evolution of the technology platform in AP. Rajendran stayed in the study Mandal for eight months, where a major focus of his work was trying to understand the payment processes and ways of making it transparent to

[13] To take one indicator, while AP is a leader in India in creating large volumes of employment under NREGA, no projects were undertaken in this Mandal for two years before she started work in this area.

the beneficiaries. Sai works with the Society for Social Audit, Accountability and Transparency - the nodal organisation for conducting social audits in the state.

Together, they had many rounds of interviews with officials (at all levels), bankers, payment agencies, banking correspondents, activists, beneficiaries of NREGA and even data entry operators. Two of the team members also took part in an audit of the payment process conducted in the Mandal. In addition to this Mandal, the team has been engaged in similar work elsewhere in India. This includes 1.5 years of fieldwork in Visakhapatnam district (currently in Seemandhra), two years Araria and Muzzafarpur districts of Bihar (by Vibhore Vardhan) and eight months in Surguja district of Chhattisgarh. Finally, Vivek has worked on NREGA and other welfare programmes since 2000 including 13 months of intensive fieldwork in Tamil Nadu, looking closely at administrative processes in welfare programmes. We will draw on these experiences to discuss how the insights from AP compare to other parts of India.

The project team also spent several months in trying to understand all the information available on payments in the NREGA website. Dipanjan developed our IT platform to download the information on a weekly basis so that we can send it to the beneficiaries via mobile phones. This process helped us understand the quality of information in the website, and the nature of transparency in direct transfers. Our extensive work on the information available online and fieldwork at all levels of the payment process has given us a strong basis to examine the claims of efficiency made on direct transfers. In the following sections we will evaluate the three claims of efficiency followed by a discussion of how far the insights from AP can be extended to other parts of India.

## DOES TECHNOLOGY ELIMINATE INTERMEDIARIES

India now has a long history of delivering cash entitlements in programs such as maternity benefits, family benefit (cash support in the event of the death of the primary breadwinner of

the family), and pensions for aged, widowed and the disabled. In addition to these, there is an element of cash payments in wage employment (such as NREGA) and other welfare programs. In traditional payment mechanisms, bank accounts were maintained at the Block level or lower where cash would be deposited by the state and central governments. This would be withdrawn by program managers such as panchayat secretaries, who would then distribute it to the beneficiaries. This process created avenues for corruption including siphoning of money or demanding bribes at the time of payment. It is this experience which made the idea of removing intermediaries appealing.

The last decade saw several experiments on the payment mechanism with the view of reducing corruption in the payment process. One common thread among these experiments was the attempt to take away the power of payment from the implementing agencies. This was accomplished by creating accounts for the beneficiaries in banks and post offices. In this system, the senior administration made deposits into the beneficiary's account directly so that cash payments do not pass through the lower bureaucracy. This innovation lies at the crux of direct cash transfer mechanisms.

With increasing digitisation and the creation of centralized Management Information Systems (MIS), senior bureaucrats can now create centralized systems that can channel payments from all parts of the state to the appropriate banks or post offices. The newly evolving mechanism of direct transfers involves a few standardised processes: Once beneficiaries are selected and payment is approved for any given cycle, the administration creates a Fund Transfer Order (FTO), which contains a list of beneficiaries, their location, account numbers, branch in which account is held and other critical information that will enable the payment agency to deliver cash to the correct person.

In most cases, governments tend to hold cash in a few Nodal banks for each scheme. The FTO is typically sent these banks. Nodal banks then transfer the approved amount to local branches that are close to beneficiaries. Since most banks do not have a presence in all parts of a state, they often have to send it to a different bank in which beneficiaries have their accounts. Since bank branches are now computerised, money is typically transferred to the last branch by the Nodal bank through a computerized transfer. The same process applies to the Post Office system, but if the "last mile" is not computerized, payments are sent to a Head Post Office or Sub Post Office[14], which then prints the payment advice and sends it by road to the local post office for payment[15].

Given that very few villages have bank branches (more on this below), states like AP have added a layer of payment intermediaries to take the cash from the banks and to pay people at the village. In this case, the district banks work with private contractors known as 'payment agencies', the major ones being FINO and Zero-Mas in the region. The contractors in this region had a three tier structure starting at the district level, going down to the panchayat. Together, the payment process from the nodal bank to the beneficiary included five layers of private contractors[16]. Thus, the idea that there would be no intermediaries in "direct" cash transfer was nothing but a figment of imagination.

## INSTANTANEOUS PAYMENTS

The second claim was that transfers happen with 'a touch of a button' and are instantaneous. The Government of AP's contract[17] with the nodal banks stipulated that the money should be disbursed within four days to the beneficiaries. We found that there were long and

[14] The lowest level in the post office system in India is a branch office which falls under sub-post offices. Sub-post offices in turn report to Head Post Offices that head the operations at the district level or in a cluster of districts.
[15] Ministry of Rural Development (2013) presents a detailed overview of the payment mechanism in NREGA.
[16] There is of course an arbitrariness in the calculating the number of layers in an organization. We calculated the bank's organizational structure as one and the payment agency as three since there was a distinct involvement of agents in processing payments at three levels in the payment agencies, whereas the money was technologically approved and transferred by the nodal banks.
[17] The contract was obtained from the Government of AP through a right to information application.

unjustified delays between the time the nodal bank received the money and the time beneficiaries were given this amount. In fact, delays caused by the payment intermediaries exceeded the delays caused by the administration in processing the payment in this region (see table 1 below).

Despite the fact that intermediaries were required to make payments within four days of receiving the money from the state government, the average time intermediaries took for processing payments in this region was 17 days[18]. This is the most optimistic reading of the situation since the calculation took into account only the payments that were officially disbursed. Nearly 13% of payments were not disbursed at all, totalling Rs. 57 lakhs for this small Mandal. That amount had been lying with the payment agencies for an average of 82 days by the time we examined the data. It is possible that some of this amount has still not been disbursed to the labourers. To say the least, this is a far cry from the notion that payments are instantaneous.

One could argue that these payments were not disbursed to labourers since the labourers were not available in the village to collect it. While such cases are definitely possible, we encountered innumerable complaints from people who had contacted the payment agencies several times to get their payments and were told that the payments had not arrived. In one case, a contractors distributed more than ten lakh rupees of pending payments two days after we started enquiring about the delayed payments. Activists in other part of AP have also had a similar experience, where long pending payments were delivered when activists raised questions about them, lending credence to the idea that payments were deliberately delayed by the payment agencies.

[18] Please see the details of how these figures were calculated in the Appendix.

# CORRUPTION

The most significant claim made by the GoI in favour of direct transfers was that it would be devoid of corruption since it does not involve intermediaries. We argued earlier that that very basis of the claim - that there are no intermediaries - is wrong. While direct transfers did not eliminate intermediaries, it created an important change in the nature of the intermediaries. There was the hope that by channelling payments through banks that are not known to engage in bribes or other forms of withholding money illegally from beneficiaries, direct transfers would help people to get their full entitlements. Unfortunately, many beneficiaries reported that payment agencies took bribes in AP. In addition, activists we worked with were concerned about new forms of corruption such as payments being deliberately delayed by the agencies in order to earn interest on it, thus introducing artificial delays in payments. While there is no conclusive proof of this form of corruption, the behaviour of the intermediaries cited above offers a strong ground for the concern.

Apart from bribes, we also encountered several cases of swindling with striking parallels to the old mechanism of payment through bureaucratic intermediaries. For example, during our fieldwork in Andhra Pradesh, many NREGA labourers mentioned that they had worked months ago but had not received their wages that they are supposed to receive within 15 days of work. We pursued this on their behalf by looking at information on payments that were posted online, and found that wages were recorded as paid in many instances.

This was surprising considering that there were many safeguards against false payments including the use of point-of-sale machines that authenticate beneficiaries using smart cards or biometric verification. These machines were supposed to make it impossible to withdraw money without the beneficiary being present. In following up on the issue we learned of a few tricks of the trade to bypass the technical safeguards.

In some cases, the banking correspondents would wait for multiple payments to accumulate and then announce to beneficiaries that a payment is ready to be collected. When workers came to collect payments, they would provide a thumb imprint using which one payment was made to them and others were recorded as paid without informing the beneficiaries. Correspondents also inserted toothpicks into the printer of the point-of-sale machine, and declared to the beneficiaries that the printer was out of order. Beneficiaries then had the choice of waiting for weeks to get a payment with a printed receipt or collect their due without it. Without a printout, they did not have a way of knowing how much money was recorded as given, and thus could be swindled despite the use of sophisticated technology.

In one of the villages, the contractor had developed a nexus with a local strongman. The strongman advised people that there would be a long delay in payment and offered to pay labourers their wage immediately but with a major commission for his service. Delays were engineered in this village so that the labourers, who are desperately poor, will get the discounted payment for getting timely payment.

These examples illustrate how forms of corruption that were prevalent in cash transfers through the lower bureaucracy could migrate into the direct transfer mechanism via banks. We are unable to ascertain the numerical value of such forms of corruption, but for the purposes here it is sufficient to say that one cannot assume that direct cash transfers will be entirely free of corruption.

## TECHNOLOGY & TRANSPARENCY

The third claim was that direct transfers can be tracked all the way to the beneficiaries and thus it will improve monitoring and transparency. This was clear in AP that had put in place extensive systems for computerising data quickly, sometimes at the very moment of transaction using Point of Sale machines (PoS). We were also able to obtain detailed data on transactions in states the PDS in Chhattisgarh, in which computerised tracking was

introduced extensively starting in 2007. In contrast, it was impossible to get meaningful information on any programme in Bihar, which had a poor and inconsistent system of digitising records. There is little doubt that if transactions are digitised at every stage up to last mile, there will be a rich dataset for monitoring by the administration and citizens.

The connection between technology and transparency has to be understood with three important qualifications as far as the direct transfer debate is concerned: One, the mere use of technology does not lead to transparency. Two, technology's ability to make government transparent is programme neutral – and thus we should not claim that direct transfers have any kind of special advantage in being transparent. Three, there are systemic reasons as to why direct transfers could become less transparent than the transfer of benefit in the Public Distribution System and other benefit transfer programmes.

Let us start with the first argument that one cannot assume that with end-to-end digitisation, there will be transparency automatically. The strongest illustration of this is the DBT scheme announced with much fanfare, on which little information is available online – even though transparency was claimed to be the major advantage of the scheme. Even in cases like NREGA-AP, in which there was a strong commitment to transparency, what was put in the public domain was often inadequate or misleading.

This can happen due to a number of reasons. To begin with, the fact that data has been captured does not mean that it will be made available to citizens. Information can be withheld by design and also inadvertently in many ways. Since we were interested in payments, we started with a few simple questions such as how much money should each family receive, have they been paid that amount and if not, at what administrative level is the payment stuck. These are crucial pieces of information for labourers, and all of this was available in the database.

While the NREGA-AP website was rich in information, the data was presented in over 220 different reports[19] containing different categories of information. When a labourer worked in NREGA, that information went into a few of these reports in the form of labour attendance. There was no way to connect this with information on payments that were available in other reports, but without the information on who or what the payment is for. Thus we had a list of workers and a list of payments, but with no means of connecting them.

Until recently information on payments was made available only in aggregate levels. While it was easy to find how much money was sent to a bank, there was no information on who this money should be distributed to – thus making this entirely non-transparent at the grassroots.

There were also calculations that created misleading impressions. For example, until recently the actual date of disbursement of wages to the labourer was not made available online in Andhra Pradesh, and what was given on the website was the first date on which a payment was made to anyone in that FTO[20]. This report may have been created considering that some labourers may not be available in the village when payments are made, which should not reflect as a delay by the contractors. This presented an opportunity for payment agencies to game the system. For example, the intermediary could pay one person out of hundreds and create the impression that payments are being made immediately to everyone, while the reality could be that most people have not received their payments.

In the study Mandal, for which we were provided information on the actual date of payment to each labourer[21], the difference in reported delays was substantial. The average delay

[19] This figure was calculated on 28 July 2014 in www.nrega.ap.gov.in.
[20] When the inadvertent lack of transparency was brought to the notice of the administration, it was remedied quickly and more detailed accounts have now been provided in the website. Such speedy change was made possible by the fact that AP has a highly effective and motivated set of senior bureaucrats who were sincere about making the programme transparent.
[21] This was provided to us by SSAAT before it was made available online.

calculated on the 'first day of disbursement' basis provided on the website was just 8.34 days. For the corresponding period, the average time it took to pass on the payments was 15.5 days if we took the actual date of disbursement to each beneficiary. The delay in yet to be disbursed payments were not taken into account in either case. A conservative estimate of average delays in payments was 43.6 days[22].

*TABLE 1: AVERAGE DELAY BASED ON DIFFERENT CRITERIA*[23]

| Bank name | **First day of disbursement** | **Actual date of payment** | **Unpaid wages** |
|---|---|---|---|
| APGVB | 6.8 | 10.4 | 58.6 |
| ICICI Bank | 9.7 | 18.4 | 59.1 |
| Post Office | 5.9 | 12 | 34.7 |
| State Bank of India | 8.4 | 9.9 | NA[24] |

Another inadvertent way by which transparency was reduced was that reports were typically created for officials and were presented in ways that were meaningful to administrators. From their perspective, it was important to measure the performance of different administrative units. Thus, the website had reliable district and paying agency wise reports of payments. Such reports mean little to citizens who are more likely to be interested in whether payments have been issued in their name or not. In NREGA-AP website it was impossible to find beneficiary level information on the payment process until recently, even though the data was available in the backend.

In our opinion, the senior administration of NREGA-AP was committed to making the programme transparent, and so the omissions were remedied quickly when it was brought to

[22] There were a total of 40,260 cases in which payments were not transferred to the labourers even though banks had received this amount. The average delay was calculated based on the last day of payment that was reported as disbursed to the labourers.

[23] Please see note on how this was calculated in the Appendix.

[24] Due to problems in the reporting mechanism for SBI, there were long delays in reporting payments to the NREGA AP website. Thus, there many have been many cases in which payments that had been made to labourers that were not yet reflected in the website, which would have biased the delay upward. In keeping with the approach of this paper to present conservative estimates, we have not presented information on the average delay of unreported payments for SBI.

their notice. A reluctant administration can find ways of omitting, filtering and presenting information in ways that would be of little practical value to citizens – thus giving the veneer of transparency but lacking in potential for citizens to use the information to secure change.

## LIMITATIONS OF RTI ON DIRECT TRANSFERS

Along with the transparency challenges mentioned above, a systematic form of non-transparency in cash disbursements has arisen from contracting out of payments to private players who are not covered by right to information laws. Payments that are processed by the bureaucracy are covered by India's strong right to information law[25]. The law provides the legal guarantee for anyone to access information on any transaction in cash transfer programmes that are handled by the bureaucracy. Unlike them, private contractors who are engaged in the payment process are not covered by the law, which weakens the regime of transparency with respect to direct transfers.

Typically, contracts with payment agencies require them to provide a prescribed set of accounts to the government, which can technically be accessed by citizens. For example, AP has instituted a system whereby data from the point of sale device of the contractors is synced with the government servers, and that information is available to anyone. This form of transparency covering a limited range of accounts by contract or law is called 'Targeted transparency' (Fung, Graham, and Weil 2007), and it is fundamentally different from the right to information. Targeted transparency reveals only selected records as mandated by law, while RTI reveals all information with few exceptions provided for by law. The right to information provides for a much more extensive transparency regime.

[25] The Center for Law and Democracy has rated India's Right to Information Act of 2005 as one of the strongest access to information laws in the world. For details, see http://www.law-democracy.org/live/global-rti-rating/ (Accessed on 15-Sep-2014). In addition, there are further provisions in laws governing welfare programmes in India that further strengthen the provisions in RTI Act by stating that no limitations involved in the RTI law could be used as a ground to deny information in the welfare programme (Drèze, Dey, and Khera 2006). See also PDS (Control) order, 2001 at http://dfpd.nic.in/?q=node/104 (Accessed, 15-Sep-2014).

While targeted transparency is valuable, new forms of corruption, inefficiencies and other problems may arise after contracts are signed. Verifying these may require new kinds of records that the private contractor is not legally bound to share. On the contrary, they are protected by an assortment of laws that private companies can use in order to claim that the information they have is proprietary, and thus need not be shared either with the government or with citizens.

In our case, we sought accounts from private contractors in order to understand the flow of funds once money reaches the contractor. Some of the contractors refused to provide us with this information. A few mentioned that they do not maintain any records and justified the lack of account keeping by arguing that it was not mandated; being a private organisation, it was up to them to maintain records that they choose to. They also questioned, justly, if they were required to share any details about transactions with citizens. In this case, the denial of accounts happened in a context in which the contractors informed the government that payments were disbursed (as reflected in the website), whereas workers claimed that they had not received those payments. In such a context, it is likely that accounts were not made transparent to protect malfeasance.

As transparency scholar Alasdair Roberts documents extensively in his book "Blacked out" (Roberts 2006), privatisation of public services is causing a major reversal in transparency globally. Even in countries with strong access to information laws and skilled transparency organisations, privatisation has made it difficult to access records created by contractors. In some cases, even contract documents have been protected from public scrutiny - even though those contracts are clearly public records held by the government[26]. Getting internal

[26] This has happened in even cases such as contracts for toll roads, water management consortium, and contract to reform social services that are not protected from disclosure unlike defence contracts that may be protected by access to information laws themselves.

documents created in the process of implementing the contract would be even more challenging, even in the face of India's strong right to information act.

As we saw in many high profile cases in India pertaining to telecom revenue sharing, power distribution and petroleum extraction, even governments may have to fight legal battles to have the Comptroller Auditor General audit the accounts of these companies, and the legal ground for that is not clear. Under such circumstances, there is even less chance of these private agencies responding to RTI requests from individuals - even when they deal with public functions that were taken away from public entities on which citizens had the right to information.

The complexities in demanding the extension of right to information to private actors is particularly acute in the finance domain. For example, within the banking domain, there is a just demand for privacy of account details and transaction information of individuals. This would be acceptable when it comes to purely private transactions - or at least if we had perfect confidence that the money channelled through these organisations will reach the intended beneficiaries. Unfortunately, our experience with both bank based systems and post offices indicate that they are not above malfeasance. Access to detailed records can be of great value in holding such agencies accountable, but they are neither mandated to maintain records extensively or share them with the public.

This problem is less acute in cases of product transfers through specialized mechanisms such as ration shops, even when they are operated by private dealers. For example, even though many ration shops are operated by private dealers, the accounting they do is created specifically for the public distribution system and we never came across a ration dealer who

claimed that she did not have to maintain records or share it since she is a private dealer[27]. Direct transfers, on the contrary, happen through established institutions such as banks that have a large number of other transactions. Unlike private ration dealers, banks have strong reasons to protect the privacy of transactions that take place within their institutions. They are unlikely to build specialised accounting and transparency mechanisms for government programmes and thus transparency will suffer in cash transfer programs in ways that will not happen with the transfer of products. Moreover, unlike ration shops that are operated by individuals, transfer of cash is typically done by larger private corporations that have the legal recourse and the ability to demand protection from the right to information law. There is thus a problem in the claim that direct cash transfers can be monitored end-to-end, and that it is highly transparent.

## TRANSPARENCY IS PROGRAM NEUTRAL

Interestingly, proponents of cash transfers have implicitly argued that direct cash transfers would be more transparent than other forms of benefit transfer, based on the argument that cash transfers can be tracked at every step. Just as it is done with cash, the flow of commodities through a supply chain until it reaches the beneficiary can be tracked with technology. Such processes are well established in the private sector and there are examples of such initiatives in the government today.

NREGA-AP provides an excellent example of using technology to track every transaction in the programme. Similar initiatives have started in the PDS and other programmes in India. For example, Chhattisgarh has put in place an extensive mechanism to track the movement of goods and it is slowly expanding the use of Point of Sale devices to record each purchase as it happens. Similarly West Bengal has started tracking all the flow of goods up to the ration

[27] There are indeed many practical struggles against sharing records with the public. That cannot be denied. But at the same time, none that we know of have questioned what records they have to maintain or whether there is a legal ground for the public to demand this information.

shop level in the PDS, and anyone can get the daily stock position in Tamil Nadu's ration shop by just sending an SMS.

Point-of-sale machines and other mechanisms can be easily introduced into other forms of benefit transfer, and thus there is no inherent advantage to delivering cash compared to products when it comes to tracking every step of the process. If there is digitisation of transactions from end-to-end, it can potentially bring greater transparency to any government transaction and direct cash transfers enjoy no extra advantage in this regard. In other words, the introduction of technology to facilitate and record transactions is to be welcomed, and it should be welcomed in all kinds of public programmes.

Despite the problems mentioned above, we recognize that major gains to transparency that can be had with the introduction of technology, combined with other careful measures to put this information in the public domain. Those gains are programme-neutral, and technology can be used to make benefit transfers as transparent as cash transfers. There is thus no logical ground to argue for closing benefit transfers and moving to direct transfers at least from the perspective that it would improve monitoring and transparency[28].

## TECHNOLOGY AND ADMINISTRATION

Our experience in other states reinforced the claim that adding a layer of technology will not necessarily lead to improved efficiency in the direct transfer process, and we can certainly not expect technology to eliminate corruption and ensure timely delivery of payments. The GoI has created a far-reaching platform for recording all transactions in NREGA mimicking many of the features of the NREGA-AP website. Over the last two years, GoI has applied pressure

[28] See Kapur et al (2008) for this argument.

on other states to use the platform for all transactions[29], but given the poor state of digital infrastructure from computers in lower levels of government to broadband connections, states like Bihar and Chhattisgarh have struggled to utilise the system, and the imposition of technology over existing administrative mechanisms has become an added reason for delays in payments.

There were also important differences in how well digitisation happened between Chhattisgarh and Bihar. Chhattisgarh invested more on using the technology platform. For example, it had created computer clusters with broadband connection in many areas so that documents could be digitised. It had also allotted human resources required for the process. Unlike AP, Chhattisgarh had not devoted adequate resources to digitise comprehensively, with the result that only a part of the transactions were digitised. Even less investments were made in Bihar and GoI's insistence on using the platform without requisite resources only resulted in additional delays in payments to the workers.

There were also substantial delays in payments because information on the bank account numbers and names were entered wrongly in the MIS, which led banks to reject the FTOs sent to them. In other words, the introduction of technology created new forms of inefficiencies that did not exist in manual payments. There is an important insight here for proponents of direct transfer who confidently argue that the use of technology will radically improve efficiency.

What these examples show is that technology itself is embedded in the administration. Ineffective administrations are likely to create effective technologies since creating effective technologies requires sustained effort and resources. This goes against the implicit assumption by the proponents of direct transfers that technology will always be efficient.

[29] One form of pressure is to approve transfer of funds to the state only when the data from past transactions are uploaded to the platform.

An interesting contrast with respect to cash transfers was the NREGA in Tamil Nadu, which resisted the model of payment through banks and intermediaries. When NREGA was first implemented in 2005, TN quickly put in place institutional arrangements to ensure payment to labourers through Panchayats without the use of any technological interface. Given the intense pressure from labourers over the government (Vivek 2014), TN ensured that payments are made without delays to the workers and this was achieved without the use of any technical interface. In other words, it is possible to have sophisticated technology with inefficiency and corruption, and tremendous efficiency without the use of technology[30].

Technology can enhance institutional arrangements and make them more effective but cannot them. Our argument differs from confident assertions that are made in public debates that the use of technology by itself will be able to ensure effective delivery with low levels of corruption. What we would like to point out is that technology is embedded in the institutional and administrative arrangements[31] and there is no substitute to strengthening them in order to ensure the effective delivery of public services. This portrayal is contrary to the implicit argument by proponents that technology will somehow always be effective even when they are created by reluctant administrations that have not bothered to put in place simple non-technological administrative arrangements.

## PAYMENTS WITHOUT INTERMEDIARIES?

Our fieldwork in other states gave us insights on the question of whether one could remove the layers of private contractors in the payment mechanism that Andhra Pradesh had instituted. Such a case could be found in states like Chhattisgarh, where payments are processed by the nodal banks to the nearest bank branch of beneficiaries, thus eliminating the

[30] For a discussion on this, see (Vivek 2010).
[31] There is a large literature on how values and practices shape technology design. Lessig (1999) and Flannigan et al (2010) provide an excellent introduction to this literature.

last mile of payment contractors. As in most other parts of India, there is an acute paucity of banks in Chhattisgarh, as a result of which there are very few banks close to places that people live in. According to the Reserve Bank of India, less than 35,000 out of the 600,000 villages in India have banking infrastructure today[32] with just 7 banks per 1,00,000 people in rural India[33]. Reetika Khera also found a reflection of this in her study, wherein she found that nearly one-third of all villages did not have a bank within 5 Kilo Metres (a small distance with good transport, but very far in places with poor connectivity) (Khera 2014).

Many old and disabled people complained that they were unable to walk many kilometres to access a bank, and even the young and able-bodied faced many problems in accessing banks due to poor infrastructure. The amount of money that beneficiaries of welfare programmes receive is small, and they rarely maintain any saving with the bank, making them unwanted customers for most branches. One banker even told us that *the poor are a drain and they just come and make the place dirty*. Whether or not such an attitude is widely held, the poor are unwanted customers for banks, and they confront informal practices that would be unthinkable for the middle class customer in urban areas.

We found many cases in which banks insisted that they would serve other customers and make the labourers wait for hours before they can receive the payments. Many had to come back several times to collect their wages. We also found many cases in which pensioners and labourers would be asked to come back another day on the pretext that they had not received the payment. Banks do not send clients with no-frills accounts a text message when new deposits are made into their accounts, and for most beneficiaries, there is no way to know whether money has come into their account and they have to take the word of the bank managers for whom they are second-class clients. This situation has led, in some cases, to a

[32] Article by Dr. K.C. Chakrabarty, former Deputy Governor of Reserve Bank of India http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=607.
[33] http://www.rbi.org.in/scripts/BS_SpeechesView.aspx?id=846

system wherein a broker maintains the passbook of multiple people, withdraws their money and delivers it to them in their villages. Thus, a de facto layer of intermediary has been added to the system with all its complications, thanks to the poor banking infrastructure in rural India.

Another problem is that given the paucity of banks, beneficiaries of various cash transfer programmes from a cluster of villages are attached to each branch. As a result, the number of customers the banks have is very high, and many branches struggle to deal with such a large volume of customers. This too has led many of them to discourage beneficiaries of welfare programs or instituting rules such as allowing people of each village to withdraw money only on one day of a month as determined by the bank.

In other words, even when banks were the only payment intermediaries, the experience of beneficiaries with cash transfer was not transparent, immediate, direct or convenient. The experience of the poor was radically different from that of a middle-class person for whom banks have become fast, convenient and the money is available to use whenever we choose to avail it.

Many bankers also opined that it is economically unviable to open branches or install ATMs in villages, and it is this economic fact that has resulted in the poor banking infrastructure in the first place[34]. Without a substantial change in the economics of banking, it is unlikely that there will be a major expansion of banking infrastructure in rural India. In such a condition, it is likely that other private contractors will be used if the government embarks on large cash transfer programmes in India.

While it is unlikely that we will be able to eliminate intermediaries by using technology, one can think about other types of private intermediaries for cash transfers. The most promising

[34] The India Committee on Financial Sector Reforms (2009) discusses the challenges in expanding banking infrastructure in India, including the economics of operating bank branches and ATMs in rural areas.

alternative today is to transfer money through mobile phones. Such transfers involve many layers of private intermediaries including telecom companies, banks and local dealers to transfer cash to beneficiaries. These processes bring their own set of challenges, inefficiencies and non-transparency and also the problem that the sector is under-regulated internationally (Pierre-Laurent et al. 2011).

To say the least, unless we have a system in which beneficiaries of welfare programs are able to walk into the unguarded gates of the Treasury to pick up their payments, we will be saddled with the need for intermediaries to channel payments. Our empirical assessment indicates that contrary to the hope that technology will reduce the layers of intermediaries, it has increased the number of intermediaries involved in payments, often with complex processes that make the payment process more opaque than in a purely bureaucratic mechanism.

## CONCLUSION AND RECOMMENDATIONS

As we argued earlier in the paper, the purpose of this case study is to provide a cautionary note against the unbound optimism about the effectiveness of "direct" cash transfers. We argued that the use of technology need not eliminate intermediaries or corruption. Similarly payments need not be instantaneous or fully transparent. The problems in AP, which had the most sophisticated technology platform for direct transfers in India clearly illustrates that we cannot assume that technology mediated direct transfers will work like magic in eliminating leakages and delays.

This case study is also not meant to illustrate that technology is ineffective. The purpose instead is to argue against the idea that technology will *necessarily* be effective irrespective of the context in which it is introduced. This is where the demand for cash transfers at the cost of other welfare programmes in India is at its weakest, since it assumes that direct transfers will necessarily be effective where other programmes have failed.

The idea that use technology could be used to solve problems of governance goes well beyond cash transfers. For example, the only structural means for better governance that the Prime Minister of India announced during his Independence Day speech, 2014 was the introduction of technology. The hope that technology could change politics also underpinned the ambitious UID project of the UPA government.

Such untested assumptions also underlie the euphoria for the Jan Dhan Yojana for financial inclusion initiated by the Government of India in August 2014. For example, media outlets such as NDTV presented the news with the headline that said, "Now the poor can swipe a card too"[35], and equated availability of debit cards to financial inclusion. We believe that careful use of technology along with non-technology initiatives can be a powerful tool for accountability, but effective technologies cannot evolve in an administrative vacuum. To say the least, we cannot expect to create effective programmes merely by focussing on the technology platform.

Secondly, there is a large degree of trust in the banking system in India. That said, it is important to recognize that the poor will experience banks in ways that are different from the non-poor. Most importantly, it is unlikely that banks will deliver in rural India without engaging one or more layers of private contractors, who are currently poorly regulated. Given this predicament, it is critical that we build strong measures of accountability for the payment intermediary system in the early stages of its evolution, rather than wait for the system to be captured by a powerful set of corrupt actors.

The most important accountability mechanism that we can put in place is transparency. In this, technology offers strong possibilities but it operates in a legal-institutional vacuum today. Since payment agencies are private, the right to information laws do not apply to

[35] Article by Mala Das entitled, "PM's Jan Dhan Yojana: Now the Poor Can Swipe a Card Too" found in http://www.ndtv.com/article/india/pm-s-jan-dhan-yojana-now-the-poor-can-swipe-a-card-too-583288. Accessed on 15-Sep-2014.

them. It is possible to create a legal framework that requires payment intermediaries to have strong systems of accounting and to make these accounts public in a timely manner. Ideally payment intermediaries must be required contractually to appoint information officers as public bodies do, and furnish any record pertaining to welfare payments upon demand. Extending the right to information to private actors undertaking public functions and using technology to publish information proactively can go a long way in ensuring that corruption in payment agencies is tackled at its early stages.

Finally, we believe that direct cash transfers can be one measure in a basket of social policies. Scholarships, pensions, maternity benefit support and other forms of money transfers can achieve socially desirable ends. But there is a dangerous argument now that we have to dismantle other forms of social support and replace them with direct cash transfers given its efficiency. What we need to acknowledge is that there is nothing inherent in direct transfers that makes it more efficient or accountable, and that the measures that can be taken to make cash transfers efficient can be equally applied to other forms of social support. Acknowledging this can be a game-changer in the cash transfer debate in India.

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# APPENDIX: CALCULATING DELAYS IN PAYMENTS

The delays in wage payments were calculated for the Pay orders that were generated during 22-Mar-2012 to 9-July-2013. We crawled all the data for the period from nrega.ap.gov.in and also got data from the 'backend' of the website from the Government of Andhra Pradesh for the corresponding period. The differences between the two datasets were: One, the website presented aggregate information at the level of a pay order, whereas the data from the government was disaggregated and was available for each payment to each individual. Two, the delay was calculated in the website as the difference between the date the FTO was sent to the bank and the date of first disbursement of the first payment payment in that FTO. The data from GoAP contained the actual date of disbursement for each payment.

To calculate the delay on the basis of "First day of disbursement" (Website data) and the "Actual date of payment" (data from GoAP), we eliminated transactions for which no date of disbursement was available in each dataset. The third column "Unpaid wages" was calculated for payments there were not yet disbursed in the dataset from GoAP. In doing so, we did not take into account the data for State Bank of India since there were many cases in which payments had been disbursed but were not reflected in the database due to delays in reporting. But this also eliminated all payments that were received by the bank but were not yet disbursed to the beneficiaries.