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GETTING CASH TRANSFERS OUT OF A JAM

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

For some years now, the so-called JAM trinity (Jan Dhan-Aadhaar-Mobile) has been propounded as a dream cash-transfer infrastructure for India. The term “trinity” itself gives a sense of the faith and fervour this project sought to inspire (why not “trio”?). It was born in chapter 3 of the Economic Survey 2015, titled “Wiping every tear from every eye: The JAM number trinity solution”. This early JAM promo humbly concluded that “nirvana today seems within reach”. The same lyrical tone can be found in the following year’s Economic Survey, where JAM’s virtues were praised once again.

What JAM really means, in practical terms, is conveniently vague. The original formulation, in 2015, mentioned two possible incarnations of the trinity: mobile banking and post office payments. The second option never made much headway, perhaps because it did not have enough scope for private profit. So Aadhaar-enabled mobile banking became the supreme goal. In January 2017, NITI Aayog CEO Amitabh Kant predicted the imminent demise of all cash-transfer paraphernalia other than mobiles: “... my view is that in the next two-and-a-half years, India will make all its debit cards, credit cards, all ATM machines all POS machines totally irrelevant… India will make this jump because every Indian will be doing his transaction just by using his thumb in thirty seconds...” This utopia was happily embraced by a familiar bandwagon of Aadhaar champions, software businesses, digital-payment companies, fintech wizards, and embedded economists.

The intoxication reached new heights as the JAM project latched on to another flourishing narrative, universal basic income (UBI). If you want to make cash transfers to everyone, what better platform can you have than Aadhaar, India’s unique biometric ID, doubling up as a permanent financial address? An illusion emerged that India had developed an ideal infrastructure for UBI, ready to be deployed at any time.

It took the coronavirus crisis for the bubble to burst. In the early days of the crisis, JAM was often invoked (sometimes along with UBI) as a possible tool of emergency relief. But when the time actually came to make cash transfers to the poor, JAM turned out to be of little use. For all the excitement it had generated, JAM had not gone beyond some fancy digital-payment systems for the privileged. Poor people, far from using the “thumb in thirty seconds” method to cash in, were still running from pillar to post to collect their meagre benefits from old-fashioned bank accounts (some also use the services of “business correspondents”, but those have little to do with JAM). Sure enough, long bank queues and related hardships have started emerging, especially in rural areas where the density of banks is relatively low. In a Dalberg survey conducted last month in 10 states, only 25% of poor households reported that it was “easy” to access cash benefits. The crowds are all set to swell further as and when the lockdown is lifted or relaxed.

JAM enthusiasts may respond that the central government’s relief package does rely on Jan Dhan Yojana (JDY) at least – the J in the JAM, if not the entire trinity. Indeed, the lead cash-relief measure in the national relief package consists of monthly transfers of 500 to women’s JDY accounts. But is that a good idea?

One way to think about this is to compare women’s JDY accounts with another possible basis for cash transfers, at least in rural areas: the list of households that have a National Rural Employment Guarantee Act (NREGA) job card. The numbers of accounts are roughly comparable: about 14 crore for NREGA job cards, and 12 crore or so for women's JDY accounts in rural and semi-urban areas (assuming that the gender distribution of accounts is similar in rural and urban areas). For purposes of cash relief, the JDY approach turns out to fare poorly on several counts.

First, JDY accounts are a mighty mess – the NREGA job-cards list is far more transparent and well-organised. During the frantic initial JDY wave, in 2014-15, banks opened JDY accounts en masse to meet the targets. Banking norms went for a toss: many accounts were opened without informed consent, duplicate accounts flourished, Aadhaar numbers were seeded without any safeguards, and so on. Later on, a large proportion of JDY accounts (40% in March 2017, down to 19% in January 2020) went "dormant" as customers were unable or unwilling to use them. Other accounts were blocked because the account holders were unable to complete timely ex-post biometric authentication ("e-KYC") of the Aadhaar numbers that had been seeded into their accounts. It is not clear what proportion of JDY accounts are operational today, in the sense that a bank transfer to these accounts will actually reach the recipient in good time.

Second, cash transfers to women's JDY accounts are likely to involve large exclusion errors. According to a recent Yale study, less than half of poor adult women have a JDY account (an even lower proportion, 21%, know that they have a JDY account). Consistent with this, the Dalberg study mentioned earlier finds that the proportion of poor households where at least one adult woman has a JDY account is just 57%. The NREGA job-card list is likely to have much better coverage of poor households. The natural complementarity between NREGA and social security pensions (covering more than four crore persons under the National Social Assistance Programme alone) would further help to reduce exclusion errors.

Third, inclusion errors are also likely to be larger in the JDY approach. Job cards are meant for rural workers, JDY accounts are for everyone. National Election Studies 2019 data, analysed by Sanjay Kumar and Shreyas Sardesai, show that JDY beneficiaries tend to be better-off than NREGA beneficiaries. Earlier survey data, analysed by Manuela Kristin Günther, suggest that the probability of having a JDY account is more or less the same for poor and non-poor households. Some of our middle-class female friends have already received SMS alerts informing them that their JDY account has been credited with 500 of relief money.

What about the respective reliability of NREGA and JDY payments? There have been significant issues (e.g. delayed, rejected, blocked or diverted payments) with NREGA payments, often related to Aadhaar. But then, numerous "direct benefit transfer" schemes (social security pensions, scholarships, maternity benefits, among others) have faced similar problems, also reflected in official transaction data. Both the Aadhaar Payment Bridge System (APBS) and the Aadhaar-enabled Payment system (AePS) are shot through with technical glitches, possibly exacerbated by the recent surge in transactions, and especially unkind to the powerless. Transfers to women's JDY accounts are unlikely to be more reliable than transfers to job-card holders.

In fact, as far as effective payment is concerned, there is a further argument in favour of the NREGA job-cards list: unlike JDY accounts, it lends itself to the "cash-in-hand" method (on-the-spot payment in cash, instead of bank payments) as a possible fallback. The reason is that the job-cards list is a transparent, recursive household list with village and gram panchayat identifiers, while the list of JDY accounts is an opaque list of individual bank accounts. Cash-in-hand may seem like the antithesis of JAM, but this option may become important in the near future if the banking system comes under further stress. There are precedents of effective use of the cash-in-hand method, notably in Odisha for pension payments, and in various states for NREGA wage payments. Several states (including Andhra Pradesh, Odisha and Tamil Nadu) have already resorted to cash-in-hand for relief payments during the lockdown.

In short, there is nothing compelling about the use of women's JDY accounts for cash relief. In fact, it is a bit of a shot in the dark. The central government is unlikely to make a U-turn on this before the end of the Pradhan Mantri Garib Kalyan Yojana's initial three-month period. It would do well, however, to consider other options after that, including a switch to the NREGA job-cards list in rural areas. As for the JAM trinity, it should come down to earth for a reality check.

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