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EFFECTIVENESS OF DIRECT BENEFIT TRANSFER (DBT) IN REDUCING LEAKAGES

~ *Utkarsh Yadav & Divyanshi Rathour*

Abstract

India's welfare architecture has historically suffered from inefficiency, corruption, and systemic leakages that prevented public benefits from reaching intended beneficiaries. The introduction of Direct Benefit Transfer (DBT), supported by the JAM Trinity—Jan Dhan bank accounts, Aadhaar biometric identification, and mobile connectivity—marked a transformative shift in governance and welfare delivery. This paper examines the effectiveness of DBT in reducing leakages, improving fiscal efficiency, and promoting financial inclusion. By analysing welfare reforms in sectors such as food security, energy subsidies, employment guarantees, and agricultural income support, the paper argues that DBT has significantly strengthened state capacity and transparency while reducing corruption and administrative waste. However, it also highlights continuing challenges relating to digital exclusion, grievance redressal, and last-mile accessibility. The paper concludes that DBT represents a major institutional innovation in India's welfare state, though its long-term success depends on balancing technological efficiency with human-centered governance.

I. Introduction

1.1 The Genesis of Welfare Reform

The modern debate on welfare reform in India emerged from a famous statement made by former Prime Minister Rajiv Gandhi in 1985, where he remarked that only "15 paise out of every rupee" spent by the government actually reached the poor. This observation exposed the severe inefficiencies and corruption embedded within India's welfare delivery system. Public

subsidies intended for vulnerable citizens were frequently intercepted by intermediaries, siphoned through fraudulent claims, or lost due to administrative inefficiencies.

The traditional welfare system operated through what economists described as a “leaky bucket.” Benefits distributed through physical commodities such as food grains, kerosene, and fertilizers passed through multiple layers of bureaucracy before reaching citizens. At every stage, leakages occurred in the form of bribery, diversion, ghost beneficiaries, and inflated administrative costs. Consequently, welfare expenditure imposed a heavy fiscal burden while failing to achieve social justice objectives.

The digital revolution transformed this governance model. The Indian state gradually shifted from physical welfare delivery toward digital cash-based transfers through the JAM Trinity framework:

- Jan Dhan: Universal bank account access
- Aadhaar: Biometric identification
- Mobile Connectivity: Real-time communication infrastructure

Together, these three pillars created the institutional foundation for Direct Benefit Transfer (DBT), fundamentally changing the relationship between the state and welfare beneficiaries.

1.2 Understanding Direct Benefit Transfer (DBT)

Direct Benefit Transfer is not merely a payment mechanism; it represents a new governance architecture. DBT enables governments to transfer welfare benefits directly into beneficiaries’ bank accounts without relying on intermediaries. By integrating Aadhaar authentication with banking systems and mobile communication, DBT seeks to create a transparent and accountable welfare delivery system.

Today, DBT covers more than 300 welfare schemes across India, including major programs such as:

- PAHAL (LPG Subsidy Scheme)
- Mahatma Gandhi National Rural Employment Guarantee Act wage payments
- PM-KISAN income support

- Public Distribution System (PDS) reforms
- Scholarship and pension transfers

The primary objectives of DBT include eliminating duplicate beneficiaries, reducing administrative delays, enhancing fiscal efficiency, and promoting financial inclusion among previously unbanked populations.

1.3 Historical Nature of Welfare Leakages

Before the introduction of DBT, India's welfare system suffered from deep structural weaknesses. One of the most significant problems was the existence of "ghost beneficiaries," where fake or duplicate identities were created to siphon government funds. In many cases, deceased individuals continued to receive welfare benefits on paper while officials diverted the funds for personal gain.

Another major source of leakage involved the diversion of subsidized commodities into black markets. Products such as kerosene, food grains, and fertilizer were often sold illegally at market prices instead of reaching poor households. The fragmented physical distribution network enabled intermediaries to manipulate supply chains and extract rents from welfare programs.

Additionally, inclusion and exclusion errors further weakened the system. Wealthier households sometimes accessed welfare benefits through political influence or forged documents, while genuinely poor individuals were excluded due to lack of documentation, illiteracy, or social discrimination.

As a result, India's welfare system became fiscally unsustainable and administratively inefficient, generating widespread distrust in public institutions.

1.4 Thesis Statement

This paper argues that Direct Benefit Transfer has transformed India's welfare governance by significantly reducing systemic leakages, improving fiscal discipline, and strengthening financial inclusion through the JAM Trinity framework. By eliminating intermediaries and introducing digital transparency, DBT has enhanced the efficiency and accountability of welfare delivery. However, despite its success in reducing corruption and administrative waste, DBT continues to face challenges relating to digital exclusion, grievance redressal, and last-

mile accessibility. Therefore, the future effectiveness of DBT depends on combining technological efficiency with inclusive and human-centered governance.

II. Conceptual Framework: Understanding Welfare Leakages

2.1 Types of Welfare Leakages

Leakages within welfare systems arise from multiple institutional weaknesses rather than a single administrative flaw.

The first category involves administrative siphoning, commonly referred to as the “middleman problem.” Local officials, contractors, and fair-price shop owners frequently extracted commissions or bribes before releasing welfare benefits to recipients.

The second category concerns ghost and duplicate beneficiaries. Weak documentation systems allowed fraudulent identities and duplicate entries within government databases, enabling large-scale diversion of funds.

The third category includes inclusion and exclusion errors. Inclusion errors occur when ineligible individuals obtain benefits, while exclusion errors occur when genuinely poor individuals are denied access due to bureaucratic barriers or lack of documentation.

Together, these inefficiencies created a welfare system that was both economically wasteful and socially unjust.

2.2 Principal-Agent Theory and Information Asymmetry

The failures of India’s traditional welfare system can be explained through the framework of Principal-Agent Theory.

In this framework, the government acts as the “principal” seeking to deliver welfare benefits, while local officials and intermediaries act as “agents” responsible for implementation. Because local agents possess more information about beneficiaries than central authorities, information asymmetry emerges.

This asymmetry creates opportunities for moral hazard behavior. Since monitoring costs are extremely high in large welfare systems, intermediaries can manipulate beneficiary lists, divert subsidies, or demand bribes with limited risk of detection.

DBT attempts to solve this governance problem by minimizing human discretion and establishing direct digital links between the government and beneficiaries.

III. The JAM Trinity: Foundations of DBT

3.1 Jan Dhan and Financial Inclusion

The Pradhan Mantri Jan Dhan Yojana revolutionized financial inclusion by providing “no-frills” bank accounts to millions of previously unbanked citizens. Before Jan Dhan, poor households often lacked access to formal banking institutions, making direct transfers impossible.

Jan Dhan accounts created a formal financial identity for vulnerable populations. These accounts enabled citizens to receive subsidies, wages, pensions, insurance, and credit directly from the government.

Thus, Jan Dhan established the “financial address” necessary for DBT implementation.

3.2 Aadhaar and Biometric Verification

Unique Identification Authority of India introduced Aadhaar as a biometric identification system using fingerprints and iris recognition. Aadhaar created a unique digital identity for each citizen, helping eliminate duplicate and fake beneficiaries.

By linking welfare schemes to Aadhaar authentication, governments significantly reduced ghost entries within beneficiary databases. Aadhaar also improved portability, allowing migrants and mobile populations to access benefits across locations.

The Aadhaar Payment Bridge System further enabled governments to transfer benefits directly to individuals regardless of changing bank accounts or service providers.

3.3 Mobile Connectivity and Last-Mile Governance

Mobile connectivity forms the communication backbone of DBT. SMS alerts and mobile banking applications provide real-time information regarding credited funds, reducing dependence on local officials.

Mobile-based banking also supports the Business Correspondent (BC) model, where banking agents use handheld devices to provide doorstep banking services in rural and remote areas.

This “last-mile connectivity” strengthens transparency and empowers beneficiaries with direct access to information.

IV. Sectoral Impact of DBT

4.1 PAHAL Scheme and LPG Subsidy Reform

PAHAL became one of the world’s largest cash transfer programs by separating LPG subsidies from the selling price of cylinders.

Previously, subsidized domestic LPG cylinders were frequently diverted for commercial use. Under DBT, consumers pay the market price upfront and receive subsidies directly into their bank accounts.

This reform eliminated arbitrage opportunities, reduced commercial diversion, and removed millions of duplicate LPG connections, generating substantial fiscal savings.

4.2 Public Distribution System (PDS) Reforms

Historically, the Public Distribution System suffered from large-scale diversion of food grains into black markets.

The introduction of e-PoS devices and Aadhaar-based biometric authentication transformed the system. Beneficiaries now verify their identity through fingerprints before accessing subsidized food grains.

Real-time transaction recording reduced fraudulent claims by fair-price shop owners and strengthened accountability.

Additionally, the One Nation One Ration Card initiative improved portability, enabling migrant workers to access food benefits nationwide.

4.3 MGNREGA Wage Payments

The implementation of DBT within Mahatma Gandhi National Rural Employment Guarantee Act significantly reduced wage-related corruption.

Earlier, contractors and local officials frequently manipulated muster rolls and skimmed wages from laborers. Through the National Electronic Fund Management System (NEFMS), wages are now transferred directly into workers’ bank accounts.

This has substantially reduced intermediary control and improved wage transparency for rural laborers.

4.4 PM-KISAN and Agricultural Income Support

PM-KISAN represents a shift from indirect agricultural subsidies toward direct income support.

Instead of subsidizing inputs such as fertilizers and seeds, the government provides direct annual income assistance of ₹6000 to eligible farmers.

This approach reduces leakages associated with commodity subsidies while giving farmers greater autonomy over spending decisions.

V. Quantitative and Fiscal Impact of DBT

5.1 Fiscal Savings and Welfare Efficiency

By 2026, cumulative savings generated through DBT are estimated at approximately ₹3.48 lakh crore. These savings emerged primarily through the elimination of over 5.2 crore ghost beneficiaries and reduction in diversion-related leakages.

Food subsidy reforms contributed the largest share of these savings due to biometric de-duplication within the Public Distribution System.

The Welfare Efficiency Index (WEI) reportedly improved from 0.32 in 2014 to 0.91 in 2026, indicating major gains in delivery efficiency. While earlier only a fraction of welfare spending reached beneficiaries, DBT now enables approximately 91 paise of every rupee to reach intended recipients.

At the same time, the number of beneficiaries expanded dramatically without proportional increases in administrative waste.

5.2 Macroeconomic Benefits

DBT has also contributed to fiscal consolidation by reducing subsidy leakages and creating additional fiscal space for infrastructure investment.

Moreover, cash-based transfers reduced distortions associated with commodity-based subsidies. By limiting black-market diversion and improving market competition, DBT helped moderate inflationary pressures in sectors previously characterized by supply manipulation.

Thus, DBT not only improved welfare delivery but also strengthened macroeconomic stability.

VI. Continuing Challenges in DBT Governance

6.1 Grievance Redressal and Digital Exclusion

Despite its successes, DBT continues to face serious challenges regarding accessibility and exclusion.

Biometric authentication failures, server outages, and banking errors can prevent vulnerable individuals from receiving benefits. Elderly citizens, manual laborers with worn fingerprints, and people lacking mobile connectivity remain especially vulnerable.

Therefore, India requires stronger recipient-centric grievance redressal systems, including local help desks, social audits, toll-free helplines, and AI-driven multilingual support systems.

6.2 Bridging the Digital Divide

Remote and tribal regions continue to face limited internet connectivity and inadequate banking infrastructure.

To address these challenges, welfare systems must adopt hybrid delivery models that combine digital systems with physical backup mechanisms. Offline-capable e-PoS devices and home-delivery mechanisms for elderly and disabled citizens are necessary to ensure universal access.

Without such safeguards, the digital divide may evolve into a welfare divide.

6.3 Strengthening the Business Correspondent Network

Business Correspondents represent the human interface of India's digital welfare system. Strengthening their role is critical for improving last-mile delivery.

Policies should improve compensation structures for BCs operating in remote regions while expanding their role as digital mentors capable of assisting beneficiaries with financial literacy, fraud prevention, and grievance resolution.

Humanizing digital governance is essential for ensuring inclusive welfare delivery.

VII. Conclusion

7.1 Has DBT Achieved Its Objectives?

Direct Benefit Transfer has substantially transformed India's welfare governance architecture. Through the integration of Jan Dhan accounts, Aadhaar identification, and mobile connectivity, DBT has significantly reduced leakages, eliminated ghost beneficiaries, improved fiscal efficiency, and strengthened transparency.

The system has successfully addressed many dimensions of the historical "One Rupee" problem by ensuring that welfare benefits increasingly reach intended recipients directly.

However, DBT has not fully resolved issues of exclusion and accessibility. Technical failures and digital barriers continue to affect vulnerable populations, especially in remote and marginalized regions.

7.2 DBT and the Future of Welfare Governance

The technological infrastructure developed through DBT creates the foundation for future welfare innovations, including discussions surrounding Universal Basic Income (UBI).

With digital delivery systems now established, policymakers can increasingly focus on simplifying welfare structures and reducing administrative complexity.

DBT demonstrates how digital governance can strengthen both fiscal discipline and social justice simultaneously.

7.3 Final Reflections

The ultimate lesson of India's DBT transformation is that technology alone cannot guarantee social justice. While algorithms and biometrics can eliminate fraud and improve efficiency, governance must remain sensitive to human realities.

The future success of digital welfare systems depends on balancing technological precision with empathy, accessibility, and inclusiveness. India's welfare state must ensure that citizens remain masters of technology rather than subjects of technological systems.

Only by combining "high-tech" governance with "high-touch" public service can India create a truly inclusive and accountable welfare architecture.

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