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The Aadhar Act: a game changer

The Government of India last month notified the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Act, 2016. This followed though on a promise, to this effect, by Finance Minister Arun Jaitley in his budget speech. To ensure its passage in Parliament, the Government shrewdly introduced it as a 'money bill', which eliminated the need for irksome approvals by the *Rajya Sabha*. Not surprisingly, the opposition cried foul as the process effectively eliminated Parliamentary scrutiny. However, the final decision on nomenclature rested with the Speaker of the Lower House who was sufficiently convinced that the Bill basically pertained to appropriations from the Consolidated Fund of India (CFI) and hence qualified as a money bill. In any event, most analysts would agree that given the Opposition's recent record of stalling critical legislation on flimsy grounds, it seemed reasonable that a Bill, which does not fundamentally face ideological opposition from anyone, should be allowed to go through as quickly as possible. Whatever the Government's rationale, it appeared that the right decision was made.

The Act gives statutory backing to the Unique Identification Number (UID), Aadhar, by lawfully allowing the Government to link payment of subsidies or other welfare benefits to the UID of beneficiaries. Going forward, this number can replace a multitude of other identification and address proofs that beneficiaries would otherwise be compelled to produce. Many of these are susceptible to forgery and/or entail the payment of bribes to obtain. Aadhar is corruption-free, almost universally available and highly secure, as it is based on biometric authentication. Further, its linkage with (potentially all) bank accounts ensures that the Government can do away with the practice of maintaining differential market prices for subsidised items. This not only entails excessive administrative costs but also leads to leakages and black marketing. Henceforth, all products can be sold at a single market price and beneficiaries that are entitled to subsidised pricing can receive the difference as a direct credit into their bank accounts. Under this structure, beneficiaries would find it easier to access their entitlements and the Government stands to make significant savings.

About 30-70% of expenditure in most welfare programmes is lost to pilferage, misdirection and outright theft. If implemented properly, Aadhar should reduce this. According to a previous edition of the Economic Survey, welfare payments by the central Government added up to 4.2% of GDP in FY12 (it would probably have increased since). If even a third of this could be saved, that would imply a boost of 1.4% of GDP that goes directly, so to speak, to the national bottom line. If state Government entitlements were included, savings would be even higher.

The limited experience with the LPG subsidy, a pilot scheme that offers cash payments directly into bank accounts of beneficiaries, would suggest that these are not unrealistic expectations. Through a process of de-duplicating consumers (and subsequently shifting subsidy payments to Aadhar-seeded bank accounts), the Government saved approximately Rs 14,500 crore[1] in 2014-15. When measured

[1] There has been some debate over the attribution of these savings to Aadhar. Analysts have pointed out that the bulk of these savings is due to a process of eliminating unverified and duplicate LPG consumers (approximately 33 million of them) across the 4 oil companies, which was carried out before Aadhar was introduced. While this is correct, it represents only an academic difference. Had Aadhar been introduced earlier, it would have enabled the same de-duplication process to happen (in fact, to happen faster). Further, Aadhar made bank account linkages easier which meant a faster transition to a single price regime for LPG. Hence, the attribution of the entire savings to Aadhar alone may be incorrect from a literal point of view but not an operational or conceptual one.

against the actual expenditure (direct fiscal subsidy as well as under-recoveries of the oil companies) of Rs 48,362 crore in 2014, this implies a 30% saving. The next set of welfare payments likely to be moved to Aadhar-based authentication include NREGA and purchases of subsidised fertilisers. Both entail large outflows by the Government and cover sizeable populations. The high penetration of Aadhar-linked bank accounts under the Jan Dhan programme (approximately 150 million) should help and if the project is able to succeed at such a large scale, other programmes would surely be easier to cover.

Some critics have raised misgivings on privacy issues and the misuse of the Aadhar database. For instance, intelligence and law enforcement agencies can access Aadhar details under certain circumstances and some fear that this may lead to profiling of individuals (e.g. by using Aadhar as a link across various data sets such as telephone records, travel records, etc.) and their subsequent harassment – deliberate or otherwise. In the first instance, this argument would seem premature – the ability to cross-link databases using Aadhar as a common key is many years away, since most national databases do not contain Aadhar details in the first place nor is there any regulation that requires them to do so. By the time such a scenario becomes realistic one can expect sensible regulations to be drawn up. At a more ideological level, lies the trade-off between the remarkable crime-fighting applications of such cross-linking capabilities vis-à-vis the compromises it may entail upon individuals. Clearly, there is a need for safeguards and redressal mechanisms – but throwing the baby out with the bath water cannot be the ostensible solution.

Another worry relates to the fact that while the stated aim of the Bill is Government-centric, it allows private parties to use Aadhar-based authentication as well. It is not immediately clear why this is a concern (other than perhaps India's historical ideological suspicion of the 'private sector') but presumably, it has been done to enable point-of-sale intermediaries such as banks, retailers and mobile companies to execute the physical authentication process on behalf of the Government. In any event, the subordinate Rules to the Act can provide an opportunity to clarify and restrict the scope for unwanted access to the Aadhar database. Perhaps the one weak aspect of the law is that it allows the courts to take cognisance of complaints only if made by the UID Authority of India. While this may have been done to restrict the scope for frivolous litigation, it does undermine the basic principle of universal access to judicial redressal. Further, in the event that employees of the UID authority themselves are responsible for a breach or offence under the Aadhar Act, this provision would create an obvious conflict of interest.

Nevertheless, in the final analysis, the Act signifies a big leap forward in the area of both welfare provision and fiscal control. Given this Government's record in successfully executing large and complex projects, one can justifiably hope that it will do a good job with Aadhar as well. If so, the impact would be nothing short of game changing.