

# Designing and Implementing a Technology-Driven Public-Private Partnership

*Innovations Case Discussion:  
India's Project Aadhaar*

Vijay Sathe's superb presentation of India's Project Aadhaar is fascinating and instructive on many levels. At the policy level, the case invites us to consider the benefits and costs of a unique national identification number (UID). At the implementation level, it explores the design and management of public-private partnerships and the mobilization of citizen demand for both public and private goods. Finally, the case has a pleasing narrative: the reader is asked to identify with a likeable, publicly motivated polymath, Nandan Nilekani, as he considers his key challenges after year one. The three levels intertwine.

## BENEFITS AND COSTS

In the Indian context, the potential benefits of a fraud-proof unique ID look large. The "killer app" is a kind of ATM machine in one's cell phone. Each citizen, even the poorest, could readily access a new, no-frills bank account using a secure, biometrically verified ID number. Such accounts promise benefits in "daily interactions with mobile operators, banks, gas stations, ration providers, NREGA payments, pre-natal checkups for women, access to schools for children of migrant laborers, etc." The vision is nothing less than a more inclusive and efficient economy, as well as more effective redistribution.

In particular, the case emphasizes the benefits of using cash transfers enabled by these new bank accounts instead of the ineffective and fraud-ridden system of subsidies and targeted aid. Transfer payments to poor citizens make up a significant portion of the country's budget. India's social protection programs include subsidized wheat and rice, plus kerosene and sugar in most states (in 2009-2010, more than US \$900 million). These programs are subject to fraud and leakage, in part due to manipulation of eligibility cards. For example, in the early 2000s,

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almost 60 percent of targeted subsidized grain did not reach the intended beneficiaries below the poverty line, and the figure was over 90 percent in Bihar.<sup>1</sup>

If UIDNs are less susceptible to corruption and abuse than the usual eligibility cards, efficiency and equity will be enhanced. But UIDNs could enable an even bolder step. It is said that India's 12<sup>th</sup> Five Year Plan (2012-2017) will propose cash transfers to those eligible for subsidies for food, fertilizer, and fuel, using Aadhaar-based identification.

Cash transfers replacing in-kind transfers raise policy issues that go beyond identity cards. Elementary economics recommends cash transfers over in-kind transfers. But cash transfers may lead to unintended consequences. In-kind transfers tend to depress the local prices of those goods, while cash transfers raise those prices. In a recent case in Mexico, for example, the price effect of the in-kind transfer was equal to 12 percent of the net benefit, while the price increase caused by the cash transfer offset the direct transfer by 11 percent. "Choosing in-kind rather than cash transfers in this setting, hence, generates extra indirect transfers to the poor that are worth 23 percent of the direct transfer itself."<sup>2</sup>

Second, recipients may use the cash intended for food for other purposes, just as some loans for small businesses may be used to finance weddings. Some Latin American programs aim cash transfers at mothers, on the grounds that men misuse the money more frequently. In India, then, if cash transfers begin to replace subsidies for grains, fuels, and energy, one might expect debates to emerge over the misuse of the cash transfers (celebrations not food, men's outings not family expenditures, etc.) and eventually over who in the household should be receiving the cash.

UIDNs may also have noneconomic benefits. The case quotes a social worker speaking about the effect of UIDNs on the disenfranchised poor: "Believe it or not, these people would like some standing in society where they are recognized." In this famously diverse country, with multiple languages and powerful state and local governments, UIDNs could be part of the politics of recognition. Having a UID might underscore a "superordinate identity" (Indian) that, though not extinguishing other identities (Bihari, dalit, youth, female, etc.) could improve intergroup relations.<sup>3</sup>

What about the costs? Launching the system is costly, from the design to one of the largest social marketing programs in Indian history. Maintaining the system will have costs. Fears are already being expressed about the possible misuse of UIDNs if they become part of the increasingly integrated Indian system of personal information. In the design of India's UIDNs, new legal protection and information security are a priority. They, too, carry costs; and they are inevitably insufficient, some critics will say.

## PUBLIC-PRIVATE PARTNERSHIPS

Given these benefits and costs, the Indian government—the newly reelected prime minister Manmohan Singh and his new almost-cabinet-ranked chairman of the

Unique Identification Authority of India (UIDAI)—decide to move forward. But how? Technical and organizational questions intertwine; importantly, no one institution and indeed no one sector can do it alone.

An interesting feature of both the challenge and the Indian setting is enthusiasm for technology. In this case, two new technologies have appeared that did not exist ten years ago. One is a micro-ATM machine that combines a mobile phone with a fingerprint reader. The other is the ability to “de-duplicate” large data-sets, although the challenge in India will be to move from today’s capabilities to what will be needed five years from now. Combined, they promise “a new-to-the-world category of products and services based on the UID.” These products will require such partners as banks and “business correspondents” who act as agents for banks, insurance companies, and telecommunications firms; and also for the ministries of finance, rural development, and eventually health, education, and others.

These technologies, coupled with Mr. Nilekani as the prestigious champion, evoke enthusiastic responses from citizens and companies—and, when combined with the PM’s support, to the quelling of most of the “bureaucratic resistance” of public-sector partners.

But overcoming resistance is only the beginning. Mr. Nilekani has to persuade potential partners of the value of the proposition for the country and for each of them; and he has to integrate the pieces.

In designing public-private-citizen collaboration, one decomposes the tasks, allots them to suitable institutions according to comparative advantage, and then constructs the collaboration so that each partner gains benefits in coin it understands.<sup>4</sup>

Typically, governments are good at things like defining public purpose, authorizing and enforcing laws, and having access to tax collections. Businesses are good at things like creating and marketing products, developing incentive systems, and having access to international business ideas. Citizens’ groups are good at gaining trust with constituents, mobilizing demand, and conducting some kinds of informal screening and enforcement. Governments are particularly suited to pure public goods, businesses to pure private goods, and citizens’ groups to common property resources.

Big innovations often require all these capabilities and all these kinds of goods. Therefore, leaders like Mr. Nilekani must pull together government agencies, business capabilities of various kinds, and the efforts of citizens and nongovernment organizations. This requires his strategic vision; it also demands a favorable authorizing environment and considerable skill.

For UIDs, the authorizing environment in India is favorable politically, legally, and financially. Mr. Nilekani is able to recruit people for UIDAI from both government and the private sector. He is able to contract world-class private sector firms for key functions, including project design. He has the resources to do things quickly and do them right.

He skillfully emphasizes communication and trust, which are prime ingredients in successful partnerships. In the first year, Mr. Nilekani has spent most of his

time forging relationships with government agencies private firms, and partnerships across the government-business divide. He likens his efforts to a “road show” for a startup company, with an added dose of listening and learning. He and UIDAI, Professor Sathe writes, “worked hard to facilitate such face-to-face dialog (‘let’s get the right people together in one room’) and create working bonds across the cultural chasms that separated the institutions that needed to work together.”

The result in year one: Mr. Nilekani has made a promising start to integrating the many capabilities and the many kinds of “goods” that will be needed to implement a unique national ID.

### MOBILIZING DEMAND

Besides integrating supply, big innovations in government often entail another challenge: mobilizing demand.

In the case at hand, Mr. Nilekani met early and often with citizens and civic organizations. He and his colleagues planned a remarkable marketing campaign. Field tests provided tangible evidence to be shared with the public. Branding was taken seriously, from the name Aadhaar (“foundation”) to the logo. Borrowing from best practice in private-sector advertising, UIDAI is considering everything from posters in 15 million retail points to television ads, from utilizing influential retailers and 150,000 social workers, to celebrity endorsements and creating new songs.

Remarkably, Mr. Nilekani also set up a kind of competition in the registering of citizens. Government agencies at the state and local level were not pleased to learn that private firms, ranging from insurance companies to banks, would also be certified as registrars. This competition itself would help mobilize citizens’ demand.

### NILEKANI FACES YEAR TWO

The case closes in July 2010 with Mr. Nilekani—and by now, that means the reader as well—facing the future. What most deserves his attention? What are the key threats to integrating supply and mobilizing demand?

Guided by experience in other countries, one might advance several suggestions to Mr. Nilekani. Make sure the technology works. Contemplate all the ways corruption might occur, and take countermeasures. Work even more closely with civil society organizations. Focus on the killer app for the private sector, and delay the substitution of cash transfers for in-kind subsidies.

The technology is crucial. Mr. Nilekani needs to make sure that the “killer app” works—and is known to work. Doubts have been expressed about the technological feasibility now of biometric security via cell phones.<sup>5</sup> Mr. Nilekani needs to make sure that the “de-duplication” challenge can be met—or delay national implementation accordingly. Fortunately, as co-founder of Infosys, Mr. Nilekani is an expert in this domain.

What may be less natural to Mr. Nilekani is the challenge of corruption. We are told about large-scale leakages in the provision of fuel, food, and electricity, which are associated with fraudulent eligibility cards among other things. We are told that local land registry officials sometimes disabled the computers brought in to automate and therefore eliminate what heretofore had been lucrative areas for bribes. We learn that local politicians may benefit from these corrupt practices. Finally, some of the government agencies resist competition in registering citizens, perhaps because licenses and permits are often sources of extra-official revenue for those administering them.

When corruption is widespread, planners must game any new system to ask where extortion, bribery, and fraud may emerge. For example, the corrupt may seek to undermine the new system. National ID cards have the potential disadvantages of misuse, especially when combined with census data or data from the National Population Register, ranging from the disclosure of private information to hackers with identity theft in mind to governments who wish to use private information to oppress. When contemplating what might go wrong, one must consider that the bad guys may be members of the UIDAI partnership, for example, government agencies wishing to protect the monopoly power to register people, and agencies, companies, and politicians who benefit from the leakage in the system of subsidies. Beyond a better legal framework, which is a priority, one has to contemplate what partners could do to sabotage momentum.

For example, consider the understandable concerns about human rights, privacy, and security. To sabotage UIDs, someone may use privileged access to create what looks like a systemic vulnerability or breakdown. That may involve a domain that undermines a disadvantaged group or something that appears to menace national security. One dramatic breach could undermine the system by convincing people that the putative benefits do not outweigh the risks.

Protecting against these breaches may overlap another area of priority in year two: mobilizing demand. In both domains, an even greater involvement of citizens' groups may pay many dividends.

First, civic associations can mobilize demand—women's groups among women, farmers' associations among farmers, and so forth. Civic associations have capabilities unavailable in public agencies or private firms. Civic groups can leverage preexisting trust and solidarity to convey credible messages about new services and practices. They can provide moral and material incentives and, sometimes, enforcement. As part of a public-private partnership, they can help design and manage local services, particularly when the services need to vary according to local conditions.

Second, civic associations may be used to combat inefficiency and corruption. For example, citizens' groups can help assess the competitive process of registration. Professor Sathe notes a key role for "third parties": "UIDAI would provide training materials so that when the resident stood in line to apply for the UID, both the enrollment agency and the operator would have been certified by UIDAI, with independent third parties auditing the process and re-rating the agencies to ensure

adherence to standards and data integrity.” Civil society organizations can help monitor a changeover from subsidized food, fuel, and energy to direct cash transfers, when this is attempted. Fortunately, India has pioneering expertise in feedback mechanisms from citizens to government, in fact in Mr. Nilekani’s home town of Bangalore.<sup>6</sup> Mr. Nilekani might spend even more time in year two working with citizens’ groups to mobilize demand and to provide feedback on vulnerability and performance.

A final suggestion concerns strategic focus. Some advocates of UIDs envision the replacement of subsidies with cash payments. But though the potential gains are large, this is also a domain where resistance could be severe, from public agencies with vested interests, from the corrupt, and possibly from poverty experts who note potentially negative side effects. Recall that the “killer app” is about banking. The mini-ATM in a cell phone will have fewer opponents and many more allies than the project of replacing the subsidy system with cash transfers. In the spirit of the marketing tsunami where success breeds success, Mr. Nilekani might keep his focus in year two on no-frills bank accounts accessible through cell phones.

This case study presents a remarkable example of the interplay between technology and public-private partnerships. It is an instance of a broader drama playing out across many countries, where technological breakthroughs promise new ways to provide public goods and new access to private goods and markets, such as credit. The obstacles are indeed technical. But they are also challenges of leadership and management. How should innovators assess the needed institutional inputs and design sustainable public-private collaboration? How should they implement complicated institutional arrangements, with an eye to early successes that build momentum and, unfortunately, also an awareness of willful obstruction and the reactions of the corrupt? How should they mobilize citizens and civic associations to mobilize demand and give feedback about performance? In all these areas, the world will have much to learn from India; and as Aadhaar moves forward, perhaps some learning may also go in the other direction.

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5 J. A. Pope and D. Bartmann, “Securing Online Transactions with Biometric Methods,” *International Journal of Electronic Marketing and Retailing*, 3 (2010): 132–144.

6 S. Paul, *Holding the State to Account: Citizen Monitoring in Action* (Bangalore: Books for Change, 2002); and more generally the Public Affairs Centre of Bangalore.