

Unique identity, micropayments and challenges of the last mile:

National Rural Employment Guarantee Scheme (NREGS), India

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Agenda

- Challenge of the financial last mile
- Unique identity (UID)
- UID enabled micropayments – Proposed solution for NREGS beneficiaries

THE PROBLEM OF THE FINANCIAL LAST MILE

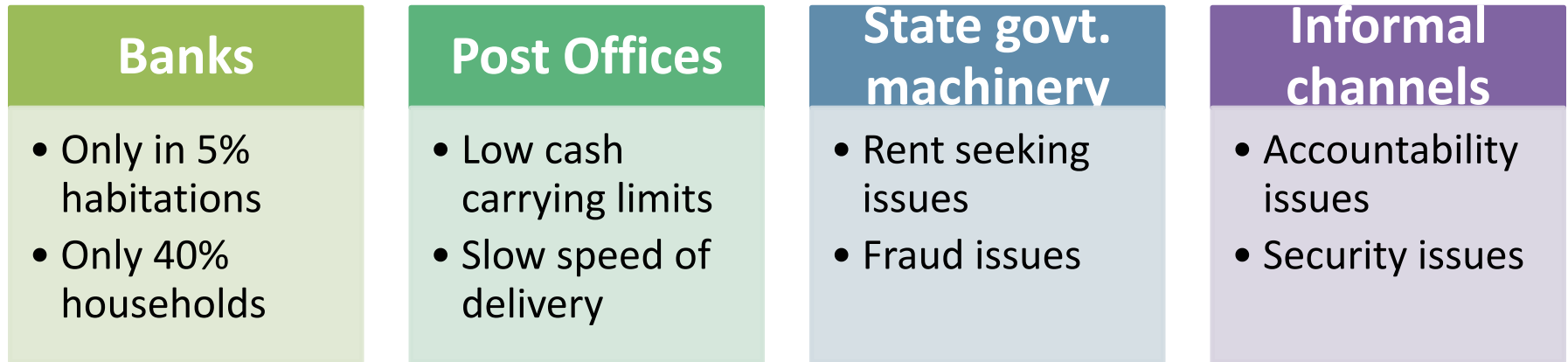
The Supreme Court on Wednesday said that the money earmarked for the project was not percolating down to the intended beneficiaries.

“There is no uniform policy. **The money is not reaching actual beneficiaries**”, said a bench comprising Chief Justice K G Balakrishnan, Justice Deepak Verma and Justice B S Chauhan. The court also said that several projects under the scheme were failing as the funds allocated either remain unutilised or in many cases money end up in wrong hands.

“There has been distribution of money. **But in many cases, it is going to wrong persons and real beneficiaries do not receive cash,**” the court said.

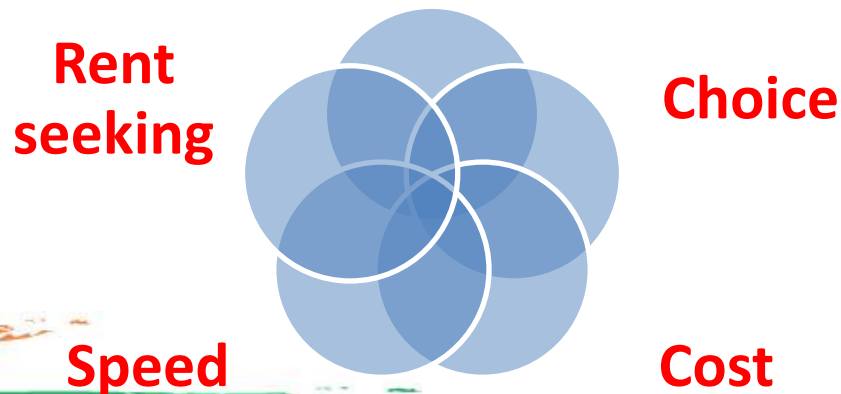
- *Times of India, Thursday, 8th April, 2010*

The challenge of the financial last mile delivery system

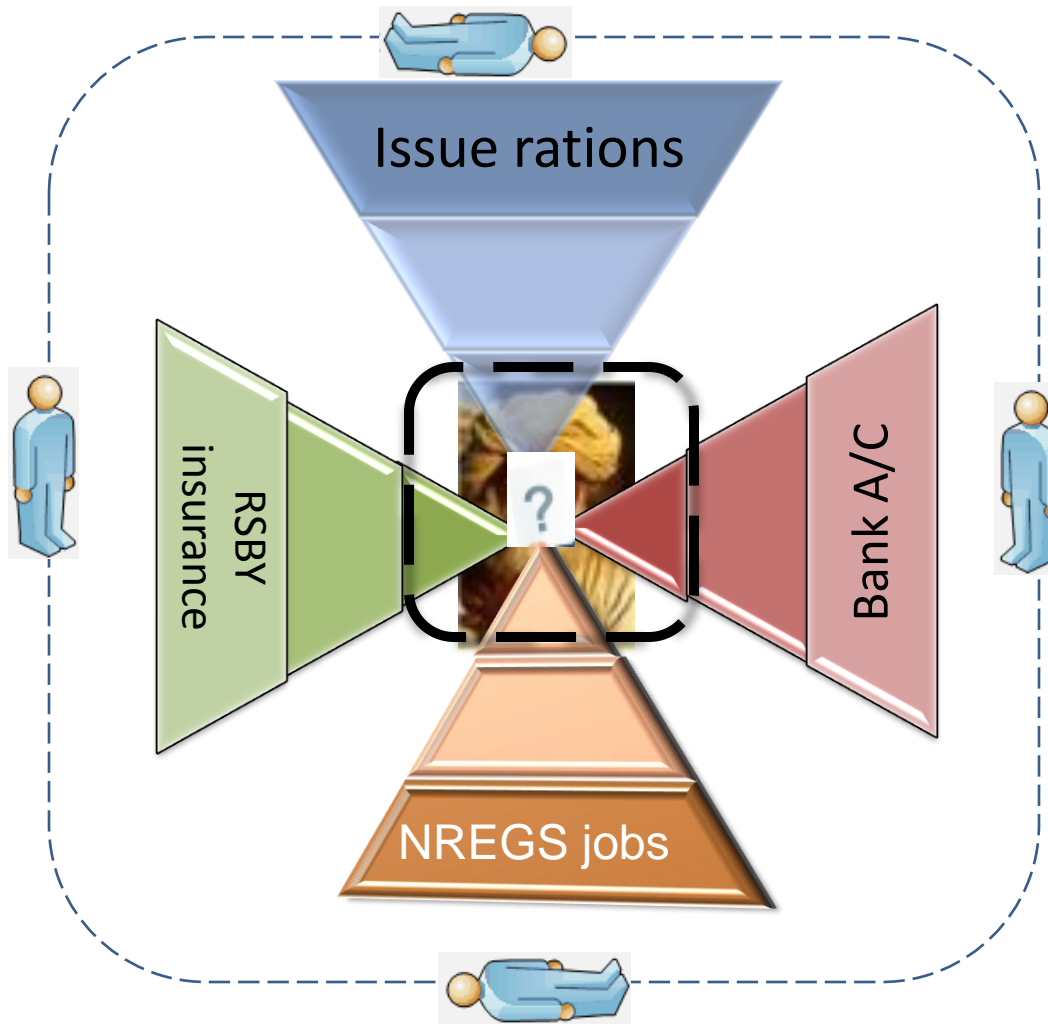


Multiple last mile barriers

Access



Verifying ID is a common challenge



Multiple service providers,
same resident!

ID document \neq ID

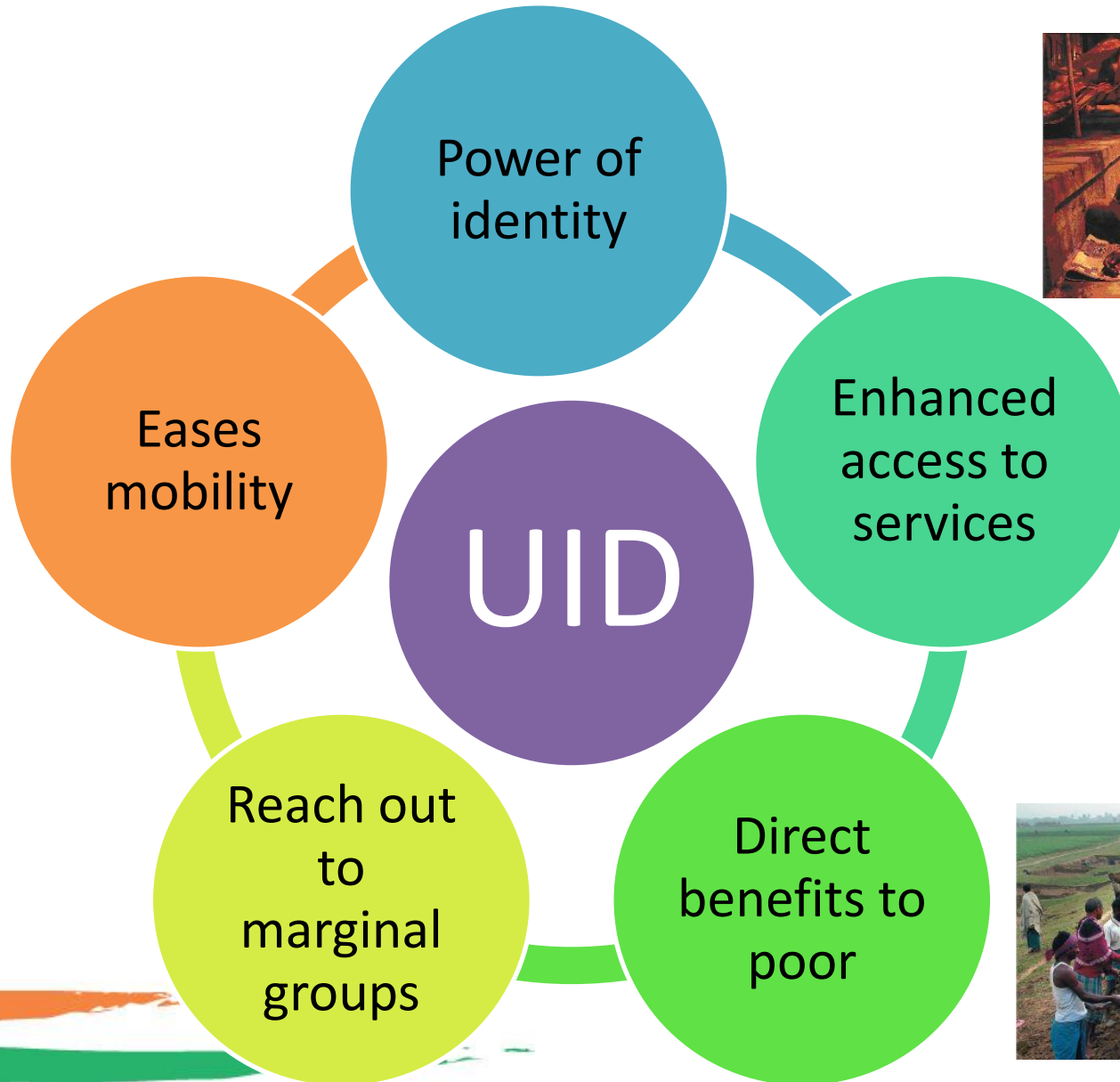
**Establishing ID – poor
man's problem**

Birth records ✗

Address proof ✗

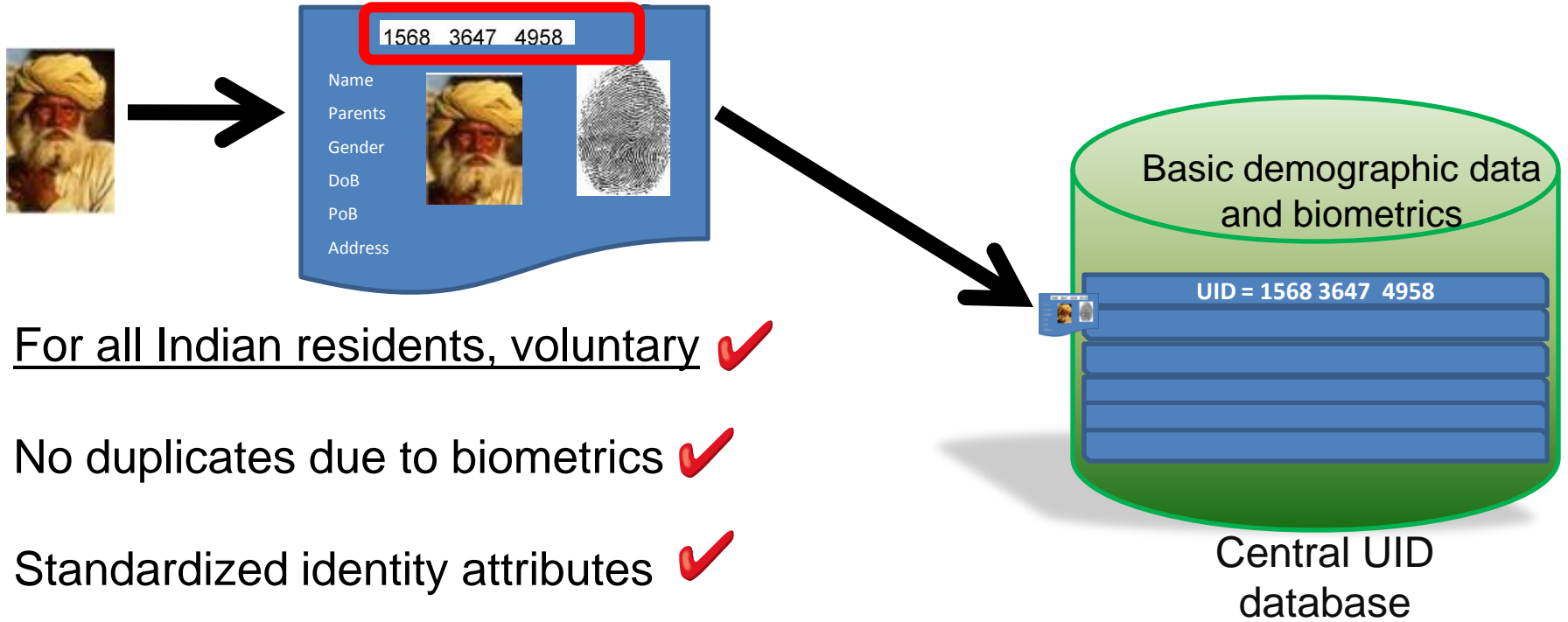
Money to 'beat' the system ✗

Inclusive potential of UID



UID Authority of India will issue numbers, not cards

UID ⇔ Unique number ⇔ Random number



For all Indian residents, voluntary ✓

No duplicates due to biometrics ✓

Standardized identity attributes ✓

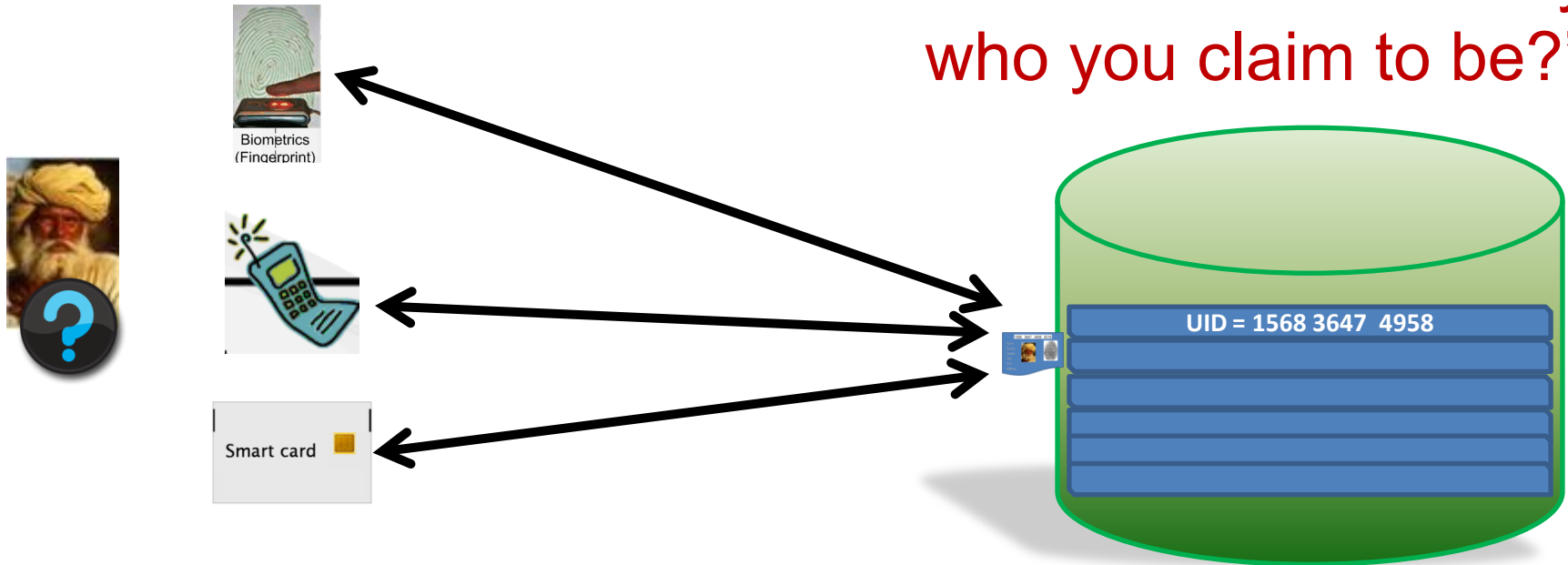
Profiling attributes ✗

Transaction records ✗

**Letter with UID # sent
to confirm enrolment**

UIDAI will authenticate UIDs online – anywhere, anytime, anyhow

Authentication - 'Are you
who you claim to be?'



- ✓ 1:1 check, no ID fraud
- ✓ Only YES/NO response, no details – no invasion of privacy
- ✓ Person can see self-details, no one else can

Why NREGS?

- Scale: Nearly 35 million households
- Financing: 1% of GDP, NREGS spending equals Federal spending on basic education, health, rural roads combined
- Politics: Buy-in from every party; NREGS is being used as a performance yardstick
- Accountability: Right to Information; Social Audits; civil society oversight
- Transparency: Detailed MIS system; use of information technology



NREGA,
Atariya,
Tikamgarh,
M.P.



Ram's efforts to collect his NREGA dues



2:30pm deadline



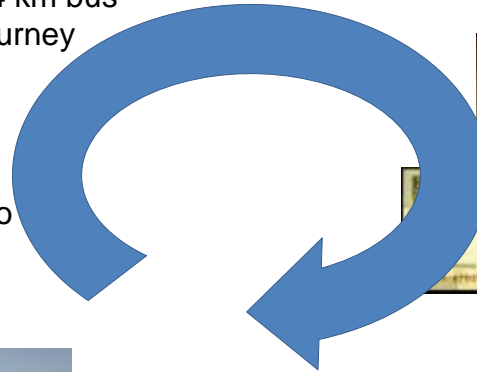
2 hour wait at the bank and a frustrated bank clerk

14 km bus journey

The return journey



6 km walk to bus stop



Moneylender dues @ 5% pm



Ram's Thursday ordeal



Ration from village store with remaining money



Ram's trade-off for his wages



NREGS Wages
Rs 545 (\$12)



Rs 20 Transport



Rs 25 Interest cost



Rs 90 Opportunity
cost of wasted day

**Rs 135 (\$3) Total cost
= 25% of NREGS wage**

THE SOLUTION

All pieces of the solution exist UID is the glue



No frills account



Banking



Cell-phone use

Correspondents



Payment Authority

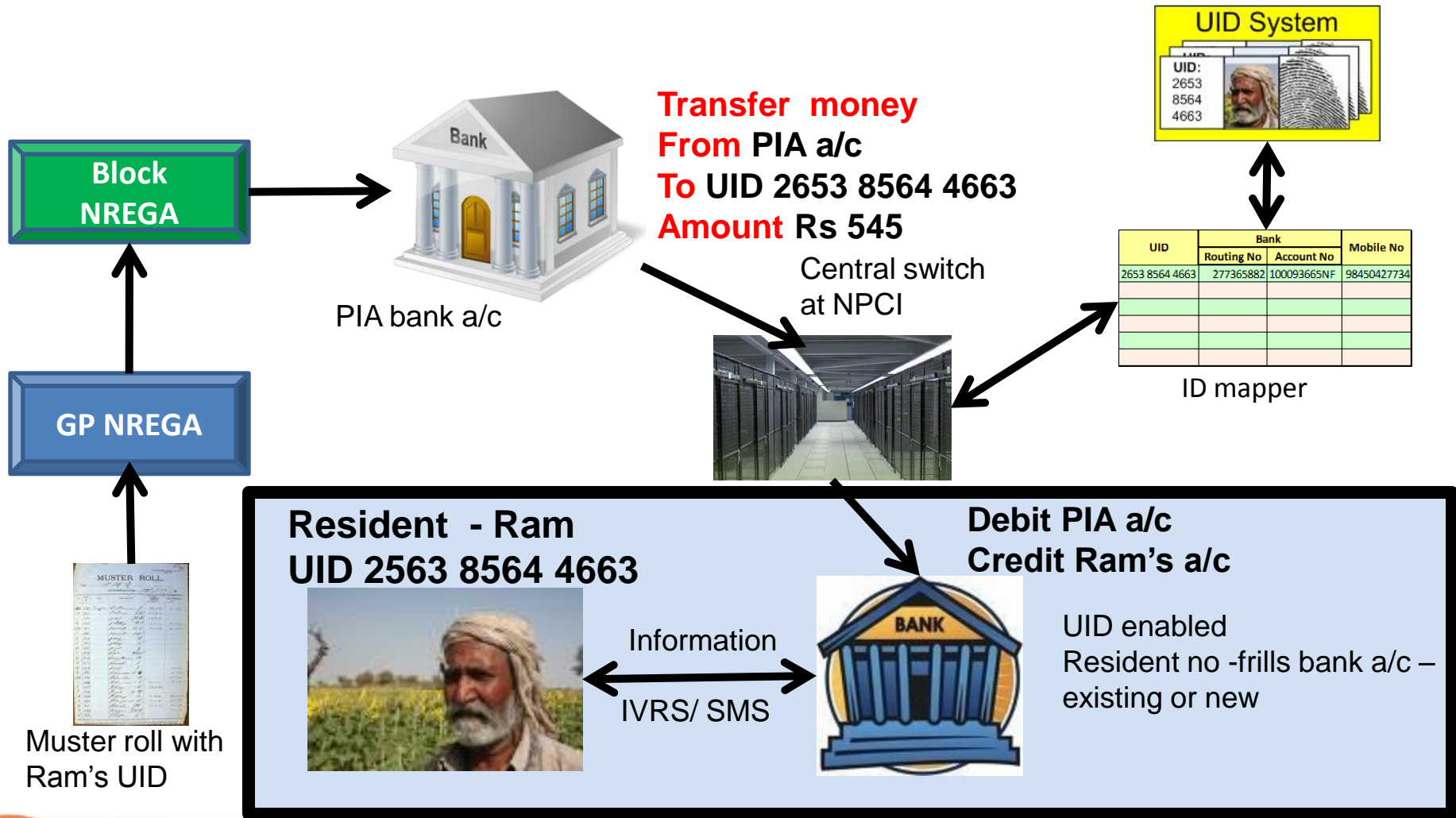


Any account,
anywhere technology

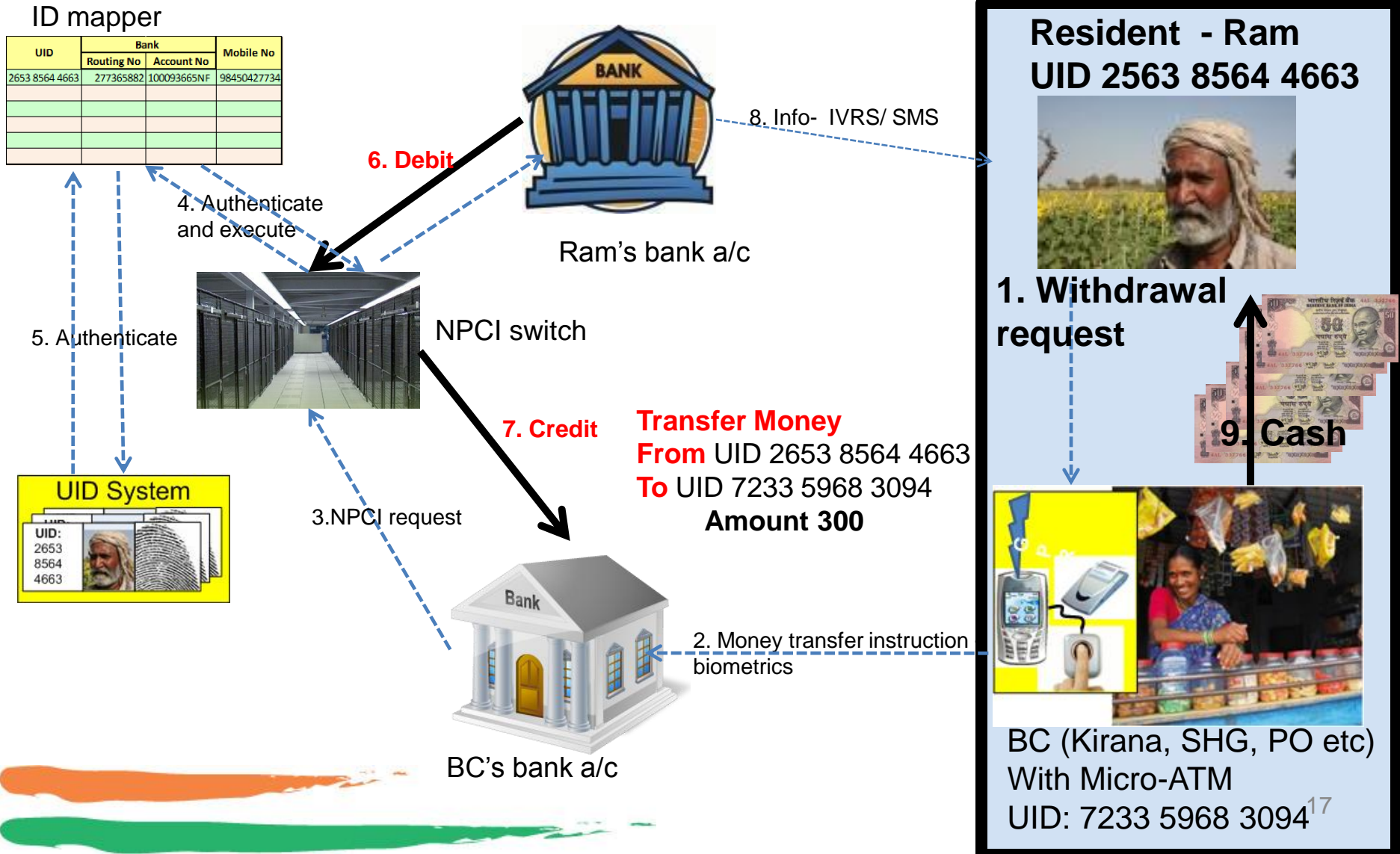


Mobile Banking

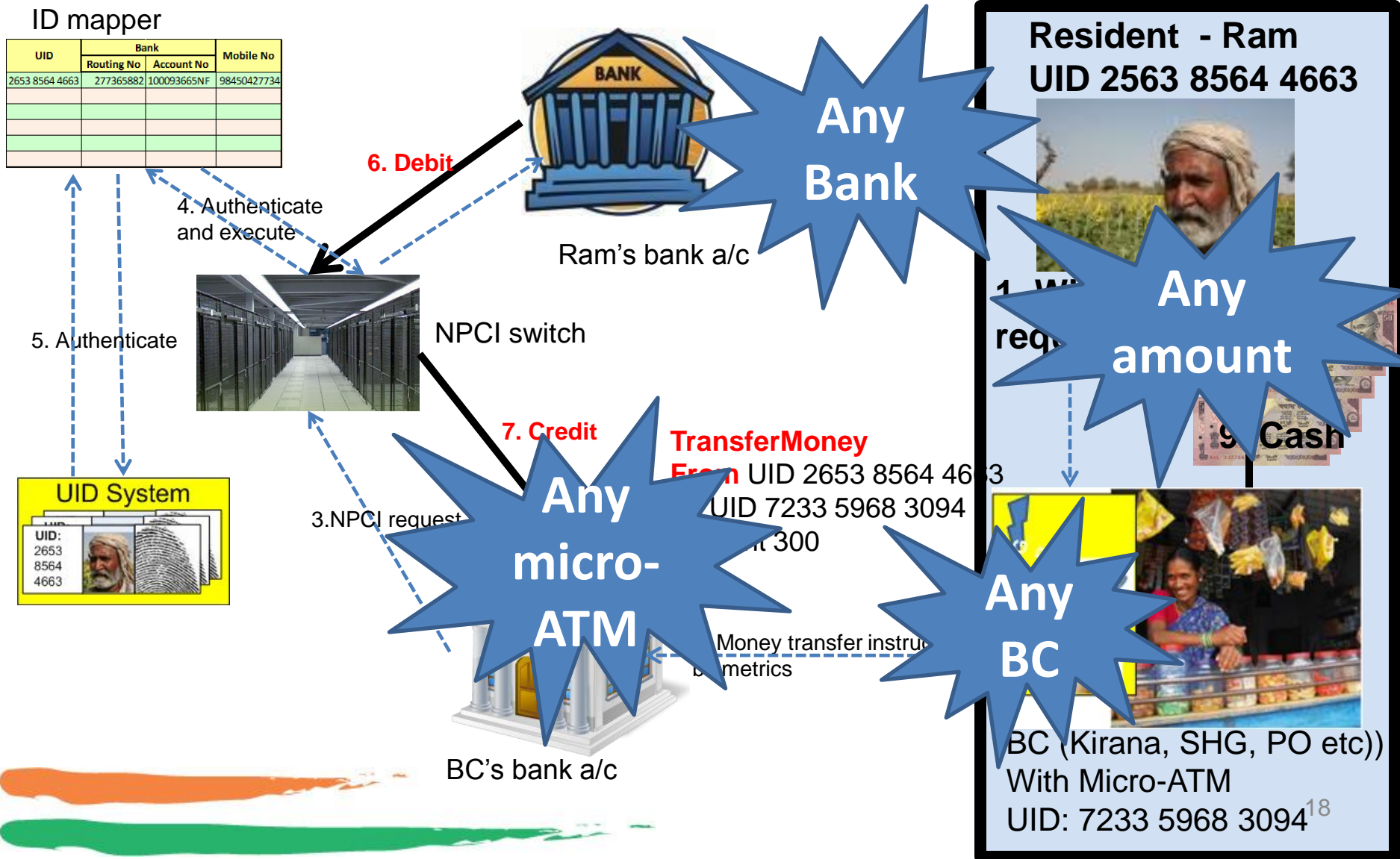
NREGA wages: UID enabled routing mechanism for direct funds transfer



Next door cash withdrawal: Banking Correspondent (BC) Model



Inclusive convenience banking



The value of UID-linked EBTs (Electronic Benefit Transfers)

Why move to Electronic Benefit Transfers?

- Subsidy losses and inefficiencies form a vicious cycle – this is money spent without generating productivity, jobs, better human capital, and more resources.
- The UID-enabled micropayments solution would enable a shift from indirect subsidies to direct benefits.
- But....learn lessons from other programs of Brasil and South Africa

Leakages



Ineffective targeting



Perverse incentives



Externalities: Real Financial Inclusion

Need based, convenient,
micro-withdrawals

Enhanced savings, more
frequent micro-deposits

Financial literacy with transformational power,
especially for women and marginalized groups

Credit history for access
to microcredit and other
financial products

Targeted micro-insurance
schemes, especially health
and life insurance

Each year nearly US\$10 billion worth of mobile
phone recharge takes place in rural India,
nearly all of it is pre-paid and less than \$2 units

Thank you!