



HOW IT WORKS

Beneficiaries are given smart cards fuelled by radio frequency identification technology which incorporates a biometric scan of their fingerprint. The customer service provider—a local with leadership qualities—carries the entire bank system on a special mobile phone that acts as a branch of a bank. It has a smart card, which stores the customers' name, address, photograph, fingerprints, etc. A swipe of the card records the details of a transaction. The dispenser has a cash chest in her office to make the payments.

SMART BENEFITS

- The system entails simple gadgets, processes that literate women can use.
- Bogus beneficiaries of public funds are minimised.
- Payments are made within 4 days of transfer of funds by the government.
- Convenient for in delivering benefits such as housing payments, public distribution system supplies and linkages with Self Help Groups.
- Puts in place a mechanism to bring the poor into the banking fold.

quently, social security pensions are given on time every month and the wages to those employed under the APREGS every week.

The Department of Rural Development facilitates all stages of implementation through the district administration. The cost of the cards and part cost of the hardware is borne by the state government apart from the 2 per cent service charge it pays to the banks. Impressed by the initial success, Chief Minister Y.S. Rajasekhara Reddy has set an ambitious target of providing smart cards to all adult residents of six districts—Warangal, Karimnagar, Mahbubnagar, Medak, Chittoor and East Godavari—by August this year.

Soon these smart cards will be used for housing payments, crop loans, supplies through the public distribution system and in self help group linkages. "We have plans to include 14 more services through the smart card," says K. Raju, principal secretary, rural development, Andhra Pradesh. "Villagers in remote areas will have the convenience of any time money that their counterparts in the cities

enjoy," he adds. Fifteen participating banks have been asked to enlist companies and non-governmental organisations (NGOs) to operate the scheme and disburse benefits—the state spends about Rs 3,600 crore every year on social security schemes. CSRS would be trained to handle the electronic terminals and put in charge of 200 to 500 recipients in a village. They will function from a gram samakya or the self help group office, for which the state government will provide exclusive space.

Initiatives such as nationalisation of banks, setting up of regional rural banks and the National Bank for Agriculture and Rural Development (NABARD) notwithstanding, the government policies have mostly failed to adequately encourage banks to go to the villages. For them such branchless banking is the obvious answer. Also, other services such as cash deposits, withdrawals, utility payments, transfer of money, micro insurance and cashless payments could be introduced at a later stage.

Even as different state governments are finding hard to grapple with the task of ensuring effective reach of subsidies, the 13th Finance Commission chairman Vijay Kelkar suggests unification of all subsidies—food, power, fertiliser and others—as a single entitlement that could be given to the individual or a family through a smart card. Apart from reducing transaction costs, including administrative costs, and plugging leakages the biometric cards can serve as an equivalent to an annual "negative income tax". He says such an entitlement by the government through negative income tax could be securitised through banks and the poor families in rural areas could have access to a larger capital. Estimates on the new single-point delivery mechanism suggest that such an entitlement would be as much as Rs 20,000 per family which, in turn, would mean that a family with a smart card could raise Rs 1 lakh capital from the financial system by even securitising part of its entitlement. "Such a fiscal reform will go a long way in promoting financial inclusion of a large section of society and the efficiency of the subsidy delivery system," says Kelkar.

The system, however, poses its own challenges. Many similar projects undertaken in various parts of the country have not gone beyond the pilot stage for want of standardisation in technology. "If different vendors build smart card applications using different standards, they may be incompatible and may also affect interoperability," says N. Krishna Mohan, director, Institute for Development and Research in Banking Technology, Hyderabad. Differing security standards may also pose a potential threat to processes. Raju says banks have agreed on a common format so that a person moving from one village to another can use his card even if the area is not served by the same bank.

Preventing duplication of smart cards is an expensive proposition for which technology is not easily available in India. But this is a requisite to preventing fraudulent withdrawal of government benefits. Creating fool-proof and tamper proof smart cards thus remains a challenge to be overcome. ■