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IMPACT OF PRADHAN MANTRI JAN DHAN YOJANA ON FINANCIAL INCLUSION IN INDIA: IF ACCESS IS ENOUGH?

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ABSTRACT

Pradhan Mantri Jan Dhan Yojana (PMJDY), the biggest Financial Inclusion initiative in the world, aiming at the liberation of poor from the vicious cycle of poverty, was announced by Shri Narendra Modi (PM of INDIA) on 15th august 2014. As NSSO data (59th round) reveals that 45.9 million farmer household (51.4%) out of a total of 89.3 million households do not access their credit, either from institutional or non-institutional sources, shows the extent of existing financial exclusion in India. Currently it is estimated that the recurring credit requirements of such small/micro businesspersons and households aggregate Rs 20,00,000 crore which is almost 80%, is met from the non-formal sector. Basically, Financial Inclusion helps in building domestic savings, domestic and financial sector resilience and stimulates business and entrepreneurial activity. The research paper aims at analysing the progress of PMJDY and its impact on the level of Financial Inclusion in India. The paper also aims to study its effect on the level of Social Inclusion. The study is based on secondary data, collected from reports and working papers of Reserve Bank of India, reports of GOI, reports and working papers of World Bank, various related research papers and Newspapers.

Keywords: *PMJDY, Financial Inclusion, Social Inclusion, Domestic Saving.*

Introduction

Since 1904 when co-operative movement took place in India and financial inclusion started, to till today central bank and government of India have taken many efforts to make financial services accessible to common people. But still there is a severe gap which needs special attention. The recent NSSO's Situation Assessment Survey (SAS) of Agricultural Households reveals that nearly 40% of all loans come from informal sources with 26% from moneylenders only. Whereas only 15% of marginal land holding Households fulfil their credit needs from institutional sources like Banks and Cooperatives etc. Realizing the depth of the problem RBI in its Midterm review of monetary policy (2005-06), urged the banks to make FI as one of their prime objective. But still as per the Mackinsey report (2011), only 41 per cent of the rural households have saving bank accounts and 79 per cent rural households do not have access to credit facilities from formal sources.

Objectives

- To analyse the progress of PMJDY so far.
- To analyse the impact of PMJDY on the level of Financial Inclusion in India.
- To study effect of Financial Inclusion on Social Inclusion.

Financial Inclusion and its Rationale

According to World Bank report, "Financial inclusion, or broad access to financial services, is defined as an absence of price or non-price barriers in the use of financial services." Prof. C. Rangrajan (2008) defined Financial Inclusion as, "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost." The problem of financial inclusion addresses the 'involuntarily excluded' as they are the ones who, despite demanding financial services, do not have access to them. Here the financial services mean credit, saving, insurance, payments and remittance facilities. The objective of

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financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low-income groups. According to Global Findex data 2017, globally, about 1.7 billion adults remain unbanked-without an account at a financial institution or through a mobile money provider. 50 per cent of adult population worldwide report owning an account with a formal financial institution, but actual operation and use of these accounts for transactions varies widely across regions and economies. Among of which half live in just seven developing economies: Bangladesh, China, India, Indonesia, Mexico, Nigeria, and Pakistan, and with that 56% percent of all unbanked adults are women only. Half of the unbanked adults come from the poorest 40% of households within their economy, the other half from the richest 60%. Hence, the unbanked are much more likely to be poor.

For India, account penetration is reported to be 35 per cent (43.7 per cent for men and 26.5 per cent for women) while China scored better at 63.8 per cent (67.6 per cent for men and 60 per cent for women). Whereas the South Korea reported high account penetration of 93%, universality of education, and in particularly, the equal spread of financial literacy.

Unbanked adults are more likely to have low educational attainment. In the developing world about half of all adults have a primary education or less. Among unbanked adults the share is close to two-thirds. Slightly more than a third of the unbanked have completed high school or postsecondary education. Those active in the labor force are less likely to be unbanked. While about 37% of all adults in the developing world are out of the labor force, 47% of unbanked adults are. Among the unbanked, women are more likely than men to be out of the labor force.

Social Inclusion

Providing access to finance is a form of empowerment of the vulnerable group. As financial exclusion in itself ensures social exclusion too and also it is a main problem of socially excluded segment of society in main. Financial Inclusion thus has become an issue of worldwide concern, relevant equally in economies of the under-developed, developing and developed nations.

Initiatives Taken by Government for Financial Inclusion

For the sake of Financial Inclusion our government and banking industry have taken various steps like Nationalization of Banks, Introduction of Lead Bank Scheme, Introduction of Priority Sector Norms, Introduction of Service Area Concept, Adoption of Villages by Bank Branches, Formation of Regional Rural Banks, Strengthening of Cooperatives and RBI's latest initiatives like 'No frill accounts', 'General credit cards (GCC)', BF/ BC model, SHG-Bank linkage scheme, Swabhiman campaign, PMJDY, launching of Micro Units Development Refinance Agency (MUDRA) bank etc. In 2011, the government of India gave spark to FI by the 'Swabhimaan' campaign, aiming to bring banking services to large no. of rural areas. But it was limited to rural areas only.

From the table we can conclude that the number of households (HHs) with bank accounts in rural areas increased from 30 per cent to 54 per cent, between 2001 and 2011, and a steady rise of 18.2 % can also be seen in urban households availing banking services. But that was not satisfactory; hence to revolutionize the process GOI launched PMJDY, at a quite large scale. This also gave a nice outcome, in the row of which Atal Pension Yojana (APY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and MUDRA bank schemes are launched.

Table: Position of Households Availing Banking Services

Census	**2001**			**2011**		
HHs	**Total number of HHs (crore)**	**Number of HHs availing banking services (crore)**	**Percent**	**Total number of HHs (crore)**	**Number of HHs availing banking services (crore)**	**Percent**
Rural	13.82	4.16	30.1	16.78	9.14	54.5
Urban	5.37	2.66	49.5	7.89	5.34	67.7
Total	**19.19**	**6.82**	**35.5**	**24.67**	**14.48**	**58.7**

Source: Census, Government of India.

Pradhan Mantri Jan Dhan Yojana

Pradhan Mantri Jan Dhan Yojana announced by Prime Minister Narendra Modi on August 15 and launched on August 28, envisages access to banking services to all un-banked individuals in India. The scheme targets for at least one basic banking account for every household to promote financial literacy, access to credit and insurance for all. The success of scheme can be predicted by the fact that it got entered the Guinness Book of World Records for opening the majority of bank accounts in the first week of its launch.

The PMJDY is implemented in two phases. In the first phase (till August 14, 2015, already concluded), every account holder would receive a RuPay debit card, and would be able to use basic mobile banking services, such as balance enquiry, and further, each would get an accident insurance cover of Rs.1 lakh. Bank accounts opened between 28 August 2014 and 26 January 2015 would also get life insurance cover worth Rs30, 000. These accounts are also eligible for over draft facility of Rs.5000 based on performance during the first six months. There will also be a financial literacy programme, expansion of direct benefit transfer (DBT) under various schemes through the beneficiaries' bank accounts and issuance of RuPay Kisan Card. In the second phase (from August 2015), micro insurance and unorganized sector pension schemes would be provided. Bank accounts opened after 26 January 2015 would be eligible for life insurance cover and micro insurance in this phase. As it is difficult to spread bank branches across all unbanked areas, Business Correspondents (BCs) are planned be deployed on a large scale to help carry out the plan.

Progress of PMJDY

The latest account opening under PMJDY scheme is shown in the table 2 showing progress of

Table 2: Progress of PMJDY on 01.12.2021

Bank Type	Number of Beneficiaries at rural/semiurban centre bank branches	Percentage Beneficiaries at rural/semiurban centre bank branches	Number of Beneficiaries at urban metro centre bank branches	Percentage Beneficiaries at urban metro centre bank branches	Number of Total Beneficiaries	Deposits in Accounts (In lac)
Public Sector Banks	216816696	62.46	130317765	37.54	347134461	11431537.34
Regional Rural Banks	70054476	87.49	10018505	12.51	80072981	2806433.75
Private Sector Banks	6985625	54.64	5800303	45.36	12785928	457991.85
Grand Total	293856797	66.79	146136573	33.21	439993370	14695962.94

Source: GOI, https://pmjdy.gov.in.

PMJDY. The Table indicates the latest data for present level of Financial Inclusion that, approx. 44 crore accounts have been opened out of which approx. 29 crore accounts are rural accounts and approx. 15 crores are urban accounts. Out of all 67% accounts are opened in rural/ semi urban areas and 33% in the urban area. Which indicates more coverage in rural and semi urban than urban of the scheme. In rural area, the Public sector banks and Regional Rural banks (RRBs) are the major contributor of the scheme. In the earlier phase of the scheme despite of great success in opening new accounts, the scheme was criticized for a bigger proportion of zero balance accounts. But with GOI and Bank branches' initiatives, as they deposited 1 rupee in each zero-balance account from their own pocket and with Direct Benefit Transfer (DBT) scheme, these accounts are also getting active.

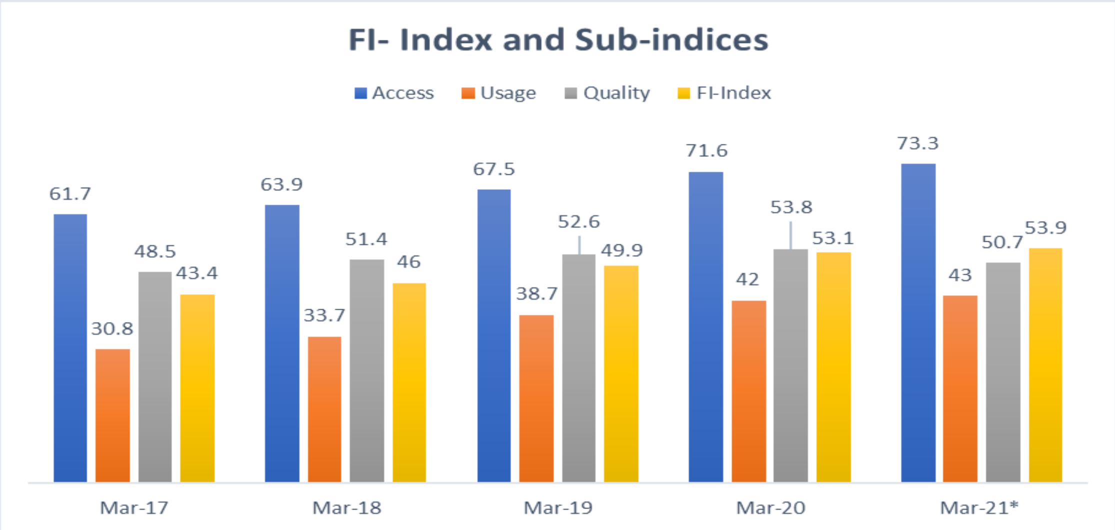
Under its DBT scheme the government has already taken steps to transfer subsidies through the bank accounts. In which, LPG subsidies, wage payments under Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), and benefits from other schemes to the citizens are being disbursed through Aadhaar enabled consumer/worker accounts, ensuring their protection from the vast leaky network of government agencies. Financial strengthening must be stressed as most Indian households especially rural rely much on money-lenders and other informal sources for credit to fulfil their needs, which hurts them at both mental and financial grounds with high interest rates and bad recovery methods. Access to Banking facilities at ease for all is the first step to resolve this problem.

Impact of PMJDY on status of FI in India

In the latest indexes a multidimensional composite Financial Inclusion Index (FI-Index) has been constructed by RBI, based on 97 indicators which quantifies the extent of financial inclusion and is responsive to availability, ease of access, usage, unequal distribution and deficiency in services, financial literacy, and consumer protection. It is measured on a scale of 0 to 100, the annual FI-Index, with three sub-indices viz., 'Access', 'Usage', and 'Quality'. Here, Access sub-index which includes Banking, Digital, Pension, and Insurance, reflects the efforts made on the supply side of financial inclusion, meant with the availability of physical and digital infrastructure. The Usage sub-index includes Credit, Savings & Investment, Digital, Insurance and Pension, explains the demand side measure and reflects the extent of active usage of financial infrastructure by way of savings, investment, insurance, availing of credit and remittance facilities, etc. The Quality sub-index have Financial Literacy, Consumer Protection, and Inequality in the distribution of financial infrastructure with 19 indicators. It indicates the efforts undertaken by the stakeholders to make citizens aware of the appropriate financial services available, safe ways of using them, and making them aware of their rights such as to overcome the psychological barriers. They also reflect effectiveness of the grievance redress mechanism and account for uneven distribution of certain indicators of financial access and usage.

The computed score of India for FI-index 2021 stood at 53.9, driven largely by Access sub-index which stood at 73.3 reflecting substantial progress so far in creating financial infrastructure in the country through combined efforts of all stakeholders.

Figure 1: Trend of FI- index and Sub- Indices till March, 2021



Source: FI-Index, RBI bulletin, 2021.

*Data for Mar-21 is provisional.

On comparing the sub-indices for Mar-17 to Mar-21, it is seen that the access index remains at the highest among three for all the period, whereas the usage index remained at the lowest for all period. Hence the access index become the major contributor in overall FI-index of India. Which concludes that Access is increasing at fast pace indicate more availability of banking outlets in country, but slow growth of Usage index indicates still a long road ahead for getting people using the banking facilities which is the ultimate goal of Financial Inclusion.

Conclusion

"Sab ka Saath, Sab ka Vikas"-the slogan given by PM of India at the launch of scheme can be fulfilled by proper implementation of PMJDY. PMJDY has done so far so good by implementing a transparent financial environment and connecting a large proportion of nation with it. Now this is the time for addressing less focused problems like financial literacy which is a main drawback of the scene. Merely account opening should not be the sole motive, but to keeping those active in terms of generating productive assets must be stressed on, as only this can ensure Social Inclusion of vulnerable groups.

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