Original Research Paper Management

Impact of Financial Inclusion Initiatives on Poor Households in India

Nidhi Joshi Research Scholar at Jagannath University, Jaipur

Dr Rajiv Kumar Goel Associate Professor at Delhi College of Arts and Commerce, Delhi University

ABSTRACT

Financial Inclusion is a topic of concern worldwide in both developed and developing countries. As per Global Findex-World Bank figures of 2014, 48% of the adult population in the world does not have an account in a bank or financial institution. 21% of the world's unbanked adults are in India.[1] According to Reserve Bank of India statistics done in 2011, over 41% households in the country are unbanked, i.e. without access to a formal banking unit. Of this unbanked population over 60% are in rural parts of the country.[2] This paper critically assesses the initiatives introduced by the Government of India during the past decade to expand the reach of banking services primarily to poor households of India.

KEYWORDS Financial Inclusion, Financial Literacy, Banks, Business Correspondents

Introduction

Half of the poor population in India is excluded from formal banking system. 22% of India's population is below the poverty line earning less than $1 per day[3].It is important to cover the poor population under the financial ambit in order to have them access to bank account, savings, loans and investments. It is considered that financial inclusion can help in improvement of living standards of the poor and stimulate economic growth. The poor households normally work in informal economy. The biggest challenge in financial inclusion area has been to bring the financially excluded households under a formal financial system by promoting financial literacy and simplifying the process to access formal financing sector. In the past two decades there has been a huge expansion in the banking industry in India with the entry of the private banks and technology development has made banking more easily accessible with mobile banking, online money transfers, automated teller machines, debits and credit cards etc.

Importance and relevance of the study

Various researchers in and outside of India, RBI and Government of India have published studies on Financial Inclusion, with emphasis on one or other area of this subject. Financial Inclusion is a very relevant topic in today's scenario in India. On one side, we are experiencing urban population moving towards advancement of financial sector at a rapid speed and on the other hand a vast majority of population having no access to formal financial sector. Financial inclusion has been topic of key importance for various decades now. Across the globe countries have realized that an improved financial inclusion percentage leads to economic growth of the nations. This can be noted by observing the degree of financial inclusion in advance countries in comparison to emerging countries. A number of organizations like World Bank, Reserve Bank of India, Planning Commission, Department of Finance have been regularly analyzing the status of financial inclusion in India.

Review of Existing Literature

Financial Literacy around the world, 2014-The Standard and Poor's Rating Services-Leora Klapper, Annamaria Lusardi, Peter van Oudheusden

The report talks about financial literacy being a big factor in achieving the Financial Inclusion goal across the world. The report collects data across the globe covering various economies asking people questions to judge their financial knowledge. Financial knowledge means know-how of a person related to money and its lending and investing concepts. Money awareness should be imparted to children from childhood, so that they grow up as informed citizens and are capable of making financial decisions in their interest. Questions have been framed to check the respondent's knowledge of inflation, compound interest and risk diversification. Financial knowledge depends on many factors like education level, gender, age and economic status. Lower percentage was recorded among women and poor. Lower financial literacy rates leads to higher risks of frauds and cheating by dubious schemes and plans by corrupt companies leading to scams and scandals.

Report of the Committee on Medium-term Path on Financial Inclusion, December 2015-Deepak Mohanty

A committee lead by Deepak Mohanty was formed with the objective of laying down a five year medium term action plan to expand and measure financial inclusion in India. The report takes into account the initiatives taken on this subject by both India and other countries. It covers innovative steps taken by countries across the world to penetrate banking system to unbanked individuals with the help of technology. A lot of relevant data has been shared with figures showing gender, country/state, age, income and sector wise segregation. The report provides a comprehensive list of recommendations, an important one being increase in use of mobile banking, learnt from the experience of other countries. Steps should be taken to develop multi lingual mobile applications to maximize its reach. As per the report meaningful financial inclusion will not be possible without social cash transfers from government to person (G2P). Large fallouts have been observed in welfare and anti-poverty schemes, in many countries and hence they have moved from price support (subsidies) to income support. Using the JAM trinity (Jan Dhan, Aadhaar, Mobile) and digitizing land records will play an important role in expansion of financial inclusion.

The Status of Financial Inclusion, Regulation, and Education in India, Abheek Barua, Rajat Kathuria and Neha Malik, ADBI paper, April 2016

The authors share in the working paper that financial inclusion has been a priority for India since nationalization of banks in 1969, although since last decade there has been a change in emphasize from loans to financial services including insurance. After witnessing a huge amount of work done and schemes launched in the past decade, we still notice a huge disparity between the urban and rural areas. In a survey done on financial literacy in the year 2013 with 7,756 people across 16 countries of Asia-Pacific, India was at the bottom of the list.

Impediments to expansion of financial inclusion

Low level of literacy: This is undoubtedly the biggest hindrance to financial inclusion in the country. The example of Kerala and Goa, with near cent percent literacy and 100% financial inclusion, speaks for themselves[4].The problem is particularly severe in North East's tribal belts, due to cultural problems, and in large swathes of cow belt where literacy levels are abysmally poor. Financial prudence and financial transactions are two different areas. While the former can be a self-taught skill, the latter requires the ability to calculate and put it on paper. A bank account cannot be read out like a will; it requires the ability to read, write and algebraically calculate. Even though literacy is not an eligibility to become a bank account holder, one would remain dependent to another literate person to manage one's account. This increases the chances of dupery and hesitance on the part of an unlettered person to open an account.

Money lenders in informal sector: In most parts of cultivable countryside, the money-lender has been the primary villain for farmers' suicides, extracting exorbitant rates of interests on repayment by the needy rural folk, exploiting on pretext of social ceremonies like marriages, even death, to juice a rural household and; in discouraging country households to opt for formal financial system. The local debt-rescheduling is one of the biggest tool for a loan shark to keep a borrower trapped inside the vicious cycle. There is a rustic adage that says that for the lender "interest is more precious than the capital". This is a grim reality faced by most slum-dwellers in urban precincts and poor households in rural India.

Remote areas and identity proofs: Geographical outreach and extreme weather conditions make parts of India unreachable for several seasons in the year. A country of India's proportions, with six weathers and swathes of unreachable Shangri-Las under its political map, can be a ruler's deadliest nightmare. How can the crevices of Ladakh or mangroves of Andmans become a financially viable option for a commercial bank? Can you ask such citizens to provide for a permanent address proof—these are the questions that require deeper introspection and discussion.

Financial Inclusion Schemes and Initiatives

Post-independence, various governments formed under different parties always considered financial inclusion as their priority, especially of the poor underdeveloped rural economy, but whether they have been successful in reaching the set-targets under the launched schemes or just kept on introducing new plans to cover the short-comings of the previous ones announced by them or their contemporaries. This is an important topic to research as it plays a vital role in development of poor population. Unless the schemes are properly implemented their introduction does not serves any purpose.

Swabhiman Yojna

The United Progressive Alliance Party (UPA) government launched Swabhiman scheme in February 2011, to increase the involvement of rural people in the financial sector. The scheme targeted to include all rural areas with a population of more than 2,000 under the banking system. In one year's time, according to government claims, the scheme had covered 73,000 such habitations under its umbrella. The scheme later rescheduled itself by seeking to cover habitations above 1,000 population. This was to cover hilly tracts where different parameters are applied in terms of population density[5].Similarly for other remote regions, Swabhiman continues to be in operation and has had substantial levels of success, particularly in states like Jammu & Kashmir. Swabhiman is an effort to bridge the gap between the rural and urban poor population of the country with the Business Correspondents (BC) or Bank Satthi. Under the Swabhiman yojna, instead of customers going to the bank, Business Correspondents provided banking services like withdrawals, savings, deposit and credit at the customer's doorstep.

Bank Mitrs or Business Correspondents played a very important role in this scheme as they were the link between the banks and majorly poor and uneducated customers. Various people were made Bank Mitr under the scheme including the local shop owners. Swabhiman yojna also intended to make payment made by government online along with mobile banking and overdraft facility. The progress of the yojna was supposed to be managed by State Level Banker's Committee (SLBC). Swabhiman yojna enabled farmers to take loan at a lower interest rate and provided banking facilities like savings account, debit card, withdrawals, deposits, recurring deposits, fixed deposits, remittances, credit cards and overdraft at doorstep through bank mitr.

Pradhan Mantri Jan Dhan Yojna (PMJDY)

The PMJDY announced from the ramparts of Red Fort and formally launched on 28 August 2014, is arguably the most ambitious project in the history of financial-inclusion initiatives in the country. Even though critics question the government claims on the number of bank accounts opened since the launch, it is clearly a step in the right direction. For, it seeks to increase the reach of formal banking by bringing it to a poor household, be it in urban precincts or rural. The campaign was blessed with enormous political push, right from the top, and was aggressively promoted via multi media. Advertisement campaigns have sought a deeper penetration into a complex geographical country like India. Benefits like Rs 1 lakh life insurance, mobile banking and loan facilities have added to make it a valuable option[6]. Incomplete documentation due to absence of photo identity proof has always been a hindrance in opening bank accounts, relaxation of this requirement certainly helped in getting more accounts opened under this scheme.

Table 1 Pradhan Mantri Jan - Dhan Yojana (Accounts Opened as on 22.02.2017)
(All Figures in Crores)

Bank Name	RURAL	URBAN	TOTAL	AADHAAR SEEDED	BALANCE IN A/c	% OF ZERO- BALANCE-A/c
Public Sector Bank	12.18	10.04	22.22	13.99	51003.87	25.32
Regional Rural Bank	4.00	0.65	4.65	2.50	11462.12	20.81
Private Banks	0.54	0.36	0.90	0.40	2254.95	34.60
Total	16.72	11.05	27.77	16.89	64720.94	24.86

Information is based upon the data as submitted by different banks/SLBCs

Source: https://pmjdy.gov.in/account

There has been criticism from various sections of society claiming that the objective of the scheme is opening a large number of accounts to prove successful implementation of the scheme rather than actually increasing the usage of banking services in the country by the poor households. There are concerns around opening of duplicate Jan Dhan Accounts or opening of Jan Dhan Accounts by those people who already have bank accounts to get the additional advantages provided by these accounts. These duplications will not be able to show the actual picture of percentage increase in banking accesses. Another area of concern has been dormant accounts, although a large number of accounts have been opened in a short period, most of these accounts are said to be dormant, with account holders not doing even a single transaction since the date of the inception of the account. Since the launch of the scheme in August 2014 in one year time till August 2015, 76% of the total accounts opened were zero balance accounts. There was a drastic fall in zero balance accounts from 76% in August 2015 to 24% in August 2016[7].

Conclusion

A large number of scholars, researchers and agencies have tried to study this topic and made recommendation to bank the unbanked population, though we do see improvement over the years, this remains the key priority for India, as India is still far behind from its contemporaries. It is widely believed by eminent economists that providing freebies and loan-waivers to rural population is not a sustainable mechanism to pull out rural households from the poverty pit. Working on the principle, give a man a fish and you feed him for a day, teach a man to fish and..., various governmental and non-governmental initiatives have routinely been launched in the hinterland. The most important test that the PMJDY has to pass, is of the keeping the accounts active and operational. Opening of a large number of accounts in no way proves the success of the scheme and higher usage of banking. However, one must admit that the recently launched Prime Minister Jan Dhan Yojna has taken a lot of sheen out of Swabhiman campaign because the former has chosen to target poor households in urban areas too. This means spreading the ambit of scope and reaching out to low hanging fruit as well.

Financial Inclusion has always been one of the top priorities of various Governments that ruled India since 1947. Each government tried to contribute in its own way by conducting Financial Literacy camps, increasing bank branch penetration by opening bank accounts in the remote areas and launching regional or/and nation-wide schemes. The focus of almost all the governments seems to be on launching of new schemes rather than working on the existing schemes. Priority should be to continue working on the existing schemes with the relevant amendments required with the changing times rather than replacing the existing programs with altogether new ones.

[1.] World Bank, Global Findex Survey 2014.

[2.] Throat Usha, Deputy Governor, RBI, speech at HMT-DFID Financial Conference 2007.

[3.] Planning Commission, Government of India

[4.] http://timesofindia.indiatimes.com/india/Financial-inclusion-All-households-in-Kerala-Goa-get-bank-accounts/ articleshow/ 45149288.cms

[5.] Budget Speech of Pranab Mukherjee, Minister of Finance, March 2012

[6.] https://pmjdy.gov.in/account

[7.] https://pmjdy.gov.in/account

References

1. Throat Usha, Deputy Governor, RBI, speech at HMT-DFID Financial Conference 2007.
2. Planning Commission, Government of India
3. Rangarajan, C., "Report of the Committee on Financial Inclusion", January 2008.
4. Leora Klapper, Annamaria Lusardi, Peter van Oudheusden-Financial Literacy around the world-The Standard and Poor's Rating Services, 2014.
5. Deepak Mohanty, Report of the Committee on Medium-term Path on Financial Inclusion, December, 2015
6. Abheek Barua, Rajat Kathuria and Neha Malik-The Status of Financial Inclusion, Regulation and Education in India, ADBI paper, April 2016
7. Status of Microfinance in India: 2010-11, NABARD
8. Reserve Bank of India - "Annual 'Report on Trend and Progress of Banking in India", various issues.
9. Khan, H.R., "Financial Inclusion and Financial Stability: Are They Two Sides of the Same Coin?
10. Shri S.S Mudra, Deputy Governor RBI, Financial Inclusion in India-The Journey so far and the way ahead, 2016.
11. NABARD Publication, Status of Micro-Finance in India 2013-14
12. World Bank, Global Findex Survey 2014.
13. Government of India (2014), "Pradhan Mantri Jan-Dhan Yojana: A National Mission on Financial Inclusion".
14. Indira Iyer, Financial Inclusion Need for Differentiation between Access and Use, National Council of Applied Economic Research, November 2014.
15. Swabhiman: Transforming Rural India by Press Information Bureau, Press Release issued on May 2012
16. Budget Speech of Pranab Mukherjee, Minister of Finance, March 2012
17. https://en.wikipedia.org/wiki/Self_Employed_Women%27s_Association
18. http://www.nrega.nic.in/netnrega/home.aspx
19. https://pmjdy.gov.in/account
20. http://timesofindia.indiatimes.com/india/Financial-inclusion-All-households-in-Kerala-Goa-get-bank-accounts/articleshow/45149288.cms