Changed Perspective of Inclusive growth in India: A mission towards self-reliance

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Abstract

The purpose of this study is to make an assessment about Pradhan Mantri Jan Dhan Yojna (PMJDY) program implemented in India for overall economic growth with a changed strategies and approach. The paper also brings out the lacunae in the earlier approaches which is a refinement in the present program. The study uses in depth analysis as methodology and assessment has been made for the poverty alleviation programs launched in the past and present. The distinct features of the present program and its practical implications have been highlighted that will change the very approach of implementation. The study also elaborates the strategies made at the grass root level by different participating development agencies to make this program distinct and more effective, efficient and qualitative. The study concludes that new initiative of the present government has been much more effective as compared to earlier programs in implementation process and thereby perceptible changes in the approach and attitude of the beneficiaries. The study also suggests certain areas as challenges where policy makers could take appropriate decision. The findings of the study will have positive, practical and social implications and provide directions to the policy makers to make this program more effective and efficient.

Key words: PMJDY, public policy, poverty, social security, inter linkages

1. Introduction

The mechanism of public policy management involves public policy formulation, implementation and management for various social and economic development programs. The effectiveness and efficiency of a successful public policy management is measured in terms of the degree of success in achieving the results for which the policy was formulated. Somehow, the results of various experiments implemented in the past, in this direction have not been

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as expected leaving many lacunae in bringing qualitative improvements. Recently, the government in India launched PMJDY as a strong weapon to fight for the cause of poor and thereby ameliorating poverty to a greater extent. The process of public policy formulation, implementation and monitoring contributes significantly for the growth and development of an economy. The success of public policy is measured in terms of economic growth in general and more precisely the development and progress of the segment for which the policy was formulated and implemented. The quality of participation and commitment of people at large in implementation of a policy assumed more significance in the overall success of a program. The formulation of a public policy is itself a herculean task, especially for a country as large, populous and diverse as India (Agarwal & Somanathan, 2005). The deficiencies in public policy can happen generally at two stages either at the policy formulation or at the implementation stage. Again this has to be perceived in the context of nature of public policy being formulated. In this paper, an attempt is made to study some of the policy lapses in schemes formulated and implemented for the betterment of the down trodden in the past and at the same time to analysed the unique features of the PMJDY policy formulation in the case of inclusive growth.

Among the series of experiments undertaken in the direction of rural development, post independence and more particularly after the nationalization of Commercial banks in July 1969 is the Financial inclusion. Financial inclusion is said to be a crucial factor for the inclusive growth in the most interior rural areas. The whole approach seems to be bit different from the earlier approaches adopted and implemented to achieve the desired results. This can be explained in terms of comprehensive approach which focuses on financial services, financial savings and social security by providing pension funds and insurance products etc. Financial services are meant to provide required financial assistance from institutional arrangements for sustainable projects and thereby deriving regular income by the poor while financial savings to be generated by the people through developing the savings habits. The primary focus remains unchanged and very much matches with the earlier approaches adopted for uplifting the poor and down trodden. This paper has been segregated into four sections. Section one presents an assessment of government initiatives and their implementation strategies in the past. The section two highlights some of the gaps in the implementation process of poverty elevation programs in the past while section three explains the model of financial inclusion. The section four explains the changed perspective of the government and adopting a comprehensive approach for financial inclusion. The last section concludes the study.

2. Past Programmes : In retrospect

A series of programmes have been launched through banking system to achieve inclusive growth. Some of the most significant of them are:

i. The Lead Bank Scheme was implemented immediately after Banks' nationalization in 1969 with a view to expand banking services to the hitherto neglected banking areas and extend credit to the needy.

ii. The RBI identified priority sectors where banks were required to finance liberally and on priority basis. At present, 40 per cent of bank's credit need to be extended under this sector. This limit was fixed in 1985 and all the banks achieved this target.

iii. Twenty Point Economic Program was implemented to finance economically weaker sections of the society under different activities. The activities/vocations were identified particularly to benefit people below poverty line.

iv. Integrated Rural Development Program was implemented to assist low income groups and encourage them to take up productive activities for sustainable growth. This was a comprehensive program with added advantage of financial subsidy to the beneficiaries.

v. Another scheme, namely, Antyodya Yojana, was also implemented particularly to benefit the poorest among the poor. This program was highly subsidized to minimize the debt burden to the poor.

vi. RBI also introduced Differential Rate of Interest (DRI) scheme as back as in 1971 which is still in vogue. Under this scheme, all public sector banks are required to lend at least 1 per cent of their outstanding advances of previous year to the people living below poverty line at highly subsidized interest rate of 4 per cent.

vii. A concept of "Self Help Group" was also implemented to develop savings habits through thrift and to undertake group productive activities. To have wider reach to financial assistance, these groups were linked to banks.

viii. Besides, the above programs which basically aimed to the mass and particularly to the poor and downtrodden, there were good numbers of credit schemes implemented for providing self employment to the educated and uneducated youth.

ix. The Regional Rural Banks were set up in 1975 with an exclusive aim to provide low cost credit and easy access to the rural poor to these banks which will operate in a limited area and work in the local environment.

x. The RBI created another banking tier viz. Local Area Banks just to extend financial help to micro entrepreneurs.

xi. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) was launched in 2005. The monitoring and implementation studies indicate great degree of mismatch between demand and supply across the regions/states. There are also reports and criticism on program's actual impact in view of massive leakages.

3. The missing links?

Despite larger numbers of credit implementation, various studies have revealed that the desired results could not be achieved for the following reasons

i. Most of the programs were implemented through a targeted approach and banks were required to achieve the set targets. In the process, the qualitative aspects did not receive due focus and desired benefits could not reach to the needy sectors.

ii. The element of capital subsidy under different government sponsored programs had many leakages and gave scope for misappropriation. The people (Beneficiaries) were keen to avail the benefits of the subsidy element rather than taking sustainable productive activities.

iii. The banking education was lagging behind which resulted in improper utilization of financial assistance.

iv. The extension staff supporting government sponsored programs were not serious in their approach.

v. The banking staff by and large had urban orientation. The existence of branches being at the urban centers, lack of transportation and communication facilities, insufficient basic infrastructure at the work place etc also caused hurdles to the successful implementation of various credit schemes.

vi. This resulted in turning large scale non performing assets. The banks were loaded with heavy write offs which led to decline in their profitability.

vii. The financial assistance without proper linkages of inputs and marketing arrangements was also responsible to a greater extent for not achieving the desired results.

viii. The concept of self help group could do little to develop savings habits and some of the groups even started their ventures.

ix. The low cost model of functioning of RRBs could not sustain for long as their operational cost reached equivalent to other commercial banks. Then the question of their viability became prime concern. This led to diversification of their operations and a bit deviation from their main focus to rural development.

x. The idea of Local Area Banks could not pick up as desired. There are only few banks operating under this banner.

4. The model of financial Inclusion

The different research reports have highlighted financial inclusion as a key for growth and development of the economy in general and individuals in particular. While explaining the Global Findex Database 2014, Demirg-Kunt et al. (2014), it claims that 62 per cent of adults worldwide have bank account. This was just 51 per cent in 2011. Their study also finds high variations in account penetration between developed and developing economies. Mankiw and Ball (2011) supports that developing inclusive financial system is an important component for economic development and progress. Campos and Dercon (2014) find relationship between finance and growth as casual and unidirectional from finance to growth. There has been number of studies to indicate that financial inclusion have significant positive impact on economic development of individuals. On the other hand, there are good number of studies to show that lack of financial assistance can lead to poverty traps and inequality, (Banerjee and Newman, 1993; Galor an Zeira, 1993; Beck Demirg – Kunt and Levine, 2007).

The financial inclusion cannot be thought of in the absence of inclusive banking. Inclusive banking refers to delivery of financial services reasonably at a lower cost to the disadvantaged and low income groups who do not have access to the formal financial system. Shamika Ravi and Shruti Gakhjar (2015) in their papers suggests the success of Bank Rakyat Indonesia (BRI) in providing commercially viable financial services to the low income households has several lessons for India. Explaining the financial inclusion, the Inclusive Finance Report 2015 by ACCESS states “the financial needs of the poor are basic and include a safe place to save, credit for business farming, animal husbandry, emergencies, education, family needs and housing, remit funds to support family and business, life and medical insurance for protection against frequent exigencies they face and pension to support them at old age.’ Another study by Audil Rashid Khan (2015) suggests that right targeting the appropriate beneficiaries of the programs is very much needed. This certainly requires a comprehensive approach to tackle the problem of poverty in true spirit. The inclusion of hitherto neglected sections of the society to the banking system is the new model of inclusive finance. This model proposes the following strategies to bring financially excluded groups within the ambit of formal financial system.

i. Provide adequate banking services by offering a basic banking "no-frills" account. This account can be opened by the person belonging to low income group at zero minimum balance or with low balance.

ii. RBI suggests to commercial banks to introduce General Purpose Credit Card (GCC) or small overdrafts to no frills account holders which enables the account holder to withdraw up to Rs.25,000 and operate this account as running account. The total credit provided as at the end of March 2014 under this category amounted to Rs.1097 billion to 7.4 million account holders. Thus, per account credit amounts to Rs.15582. There has been a significant increase in this figure as compared to Mach 2008 where per capita credit was just Rs.1802.

iii. The model suggests appointment of a Business Correspondent (BC). BC will act as an intermediary between poor people and the financial institution and ensure better relationship between the two. The performance of BC will be monitored and they will be equipped with better training. BC creates an awareness among the poor about the facilities being offered to no frills account holders.

iv. Use of information technology has been emphasized to have easy and transparent transactions by the account holders under the scheme. In this direction, smart cards have been introduced for opening of bank accounts and linking of banking transactions to mobile hand.

v. The social security benefits and other benefits extended by the governments will be routed through Electronic Benefit Transfer to prevent any kind of leakages.

vi. RBI liberalized the policy of Bank branch and ATM expansion to have wider access of banking facilities.

vii. RBI through its website has introduced project finance literacy to create awareness about the banking scheme among various target groups.

viii. Financial cum counseling centers have been set up which will provide free financial education and make the target groups aware about various banking schemes and facilities.

5. Comprehensive approach: A policy initiative

To give a new dimension to the success of whole approach of inclusive growth, the government initiated something unique and much different from earlier approaches in the form of "Pradhan Mantri Jan Dhan Yojana" (PM-JDY). In order to address low levels of bank penetration particularly in rural areas, the policy makers thought that each household in the country should have access to bank account. The process of opening bank accounts made was simple without involving much complications and documentation. The bank accounts opened under the scheme with RuPay debit card and also included accident insurance cover. RuPay debit cards are universal debt cards that aim to encourage entrepreneurial activity by liquidizing loan funds; essentially, it makes cash flow smoother and more transparent. This RuPay card scheme was conceived and launched by the National Payments Corporation of India (NPCI). Individuals whose accounts were opened before January 26, 2015 have also been provided with a premium-free life insurance cover. There are several public sector and private sector banks taking part in providing bank accounts under the PMJDY. The special benefits under PMJDY Scheme are as follows;

i. Receipt of interest on deposit.

ii. Insurance cover of Rs. 1 lakh in case of accident.

iii. Zero balance requirement in the account.

iv. Hassle-free transfer of money across India.

v. Under different government schemes, the beneficiary will get direct benefit transfer in these accounts.

vi. An overdraft facility will be permitted to the beneficiaries.

vii. The account holder can have access to pension and insurance products.

viii. A unique facility of an easy overdraft up to Rs. 5000 is available.

A significant achievement of this scheme was that on the first day of the launch on August 28, 2014, over 1.5 crore accounts were opened in various banks. This is an unprecedented record across the globe. The process of issuing RuPay debit cards was relatively slow as compared to opening of new accounts. This had an impact initially since operationally, the RuPay debit card and the bank account were separate processes; however, functionally, individuals required both simultaneously in order to make transactions. According to reports as of September 1, 2015, an amount of Rs. 23, 000 crores were deposited in over 18 crore bank accounts within a year of the launch of the scheme. Further analysis indicates that out of these, nearly 11 crores were opened in rural areas, over 14 crores were opened through public sector banks and more than 3.2 crores in Regional Rural Banks (RRBs). The following table present the progress under the above scheme.

Table 1: Pradhan Mantri Jan – Dhan Yojana
Progress As on December 8, 2021, (Figures in crore)

Bank Name / Type	Number of Beneficiaries at rural/ semi urban centre bank branches	Number of Beneficiaries at urban metro centre bank branches	No Of Rural-Urban Female Beneficiaries	Number of Total Beneficiaries	Deposits in Accounts	Number of Rupay Debit Cards issued to beneficiaries
Public Sector Banks	21.71	13.05	19.17	34.75	1115113	26.54
Regional Rural Banks	7.01	1.00	4.64	8.02	28150	3.42
Private Sector Banks	0.70	0.58	0.70	1.28	4549	1.11
Grand Total	**29.42**	**14.83**	**24.51**	**44.05**	**147812**	**31.17**

Source: GoI PMJDY Progress Report

An interesting aspect of the program is that a beneficiary is required to open no frills account with zero balance and there is no requirement to maintain the minimum balance in the account. But in practice, it is observed that the deposits in these accounts have gone up significantly over the period. It shows an increasing interest of the beneficiaries to enhance the habits of savings. At present, only 24.88 per cent of bank accounts opened under the scheme have zero balance as against nearly 50 per cent accounts with zero balance in 2015. There are three categories of banks where the beneficiaries maintain such accounts. The percentage of zero balance accounts is 20.8 per cent in Regional Rural banks, 25.3 per cent in Public Sector banks and 34.9 per cent in Private sector banks. Thus, people in rural areas are more cautious in maintaining the balance in their accounts. The Regional Rural Banks mostly operate in the rural areas.

There are number of cases where advantages of these accounts are perceived. In one of the cases, M Ramesh, the 28-year-old physically challenged from Chinnapuram, a remote village in Andhra Pradesh's Krishna district, had no source of income. The sole bread winner of the family was his father, who had fallen sick and was unable to work. But since 2014, Ramesh has been getting ₹1,000 a month as pension from the Government. The money is transferred to an account in the Andhra Bank, under the PMJDY. Linked with Aadhaar, the account is basic and he doesn't need to maintain a minimum balance. "I neither had a bank account nor an ATM card till three years ago. I'm somewhat comfortable now," says Ramesh while getting onto his tricycle at his home. He uses a RuPay debit card to withdraw money. There are several cases like this.

The banks and in particular the public sector banks had to face tremendous pressure in the beginning as the accounts were to be opened within the fixed dead line. Initially, operating cost of these accounts without minimum balance raised a serious question on the viability of the banking operations. But it has now shown positive sign of recovery. However, the pace of opening account is only the one aspect but there are many challenges which the banks will be facing ahead. Some of the concerning issues include; creating demand for viable credit products, promoting habits of savings among the beneficiaries, linking digital mobile technology for smooth money transfer options to these accounts, speedy receipt of social security benefits etc. For effective and efficient implementation of the scheme, 3 more social security schemes were added to the PMJDY in May 2015. They are known as Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Atal Pension Yojana (APY). All the three schemes were simultaneously launched in 115 locations throughout the country aiming to provide financial security to the poor.

6. MUDRA Bank

In another major policy initiative, Micro Units Development and Refinance Agency (MUDRA) Bank was launched on April 8, 2015. The primary objectives of the MUDRA Bank are:

i. To regulate lenders and borrowers and bring stability to the microfinance system through regulation and inclusive participation.

ii. Extending financial and credit support to Microfinance Institutions (MFI).

iii. Introducing performance rating and accreditation system for MFIs to enable last-mile borrowers to evaluate and approach the MFI which is more appropriate.

iv. To provide a framework for the borrowers to follow and avoid business failures and also initiate corrective steps in time. MUDRA will also prepare guidelines to be followed by the lenders to recover money in cases of default without causing any harassment.

v. To extend Credit Guarantee Scheme for providing guarantees to loans being offered to micro businesses.

vi. To develop an appropriate framework under the Pradhan Mantri MUDRA Yojana and ensure an efficient credit delivery system to small and micro enterprises.

MUDRA Bank has broadly classified borrowers into three segments: starters, mid-stage finance seekers and next level growth seekers. Accordingly, borrowers have different kinds of loan facility such as:

i. Shishu: cover loans upto Rs. 50, 000

ii. Kishor: cover loans above Rs. 50, 000 and upto Rs. 5 lakh

iii. Tarun: covers loans above Rs. 5 lakh and upto Rs. 10 lakh.

To make this movement more vibrate and practical, the additional features added to the scheme like, MUDRA Card, Portfolio Credit Guarantee, and Credit Enhancement etc. The progress made under this scheme is presented in the following table 2.

Table 2: Category wise Progress under Pradhan Mantri Mudra Yojana (PMMJ) as on March 2020

Amount Sanctioned	Rs.323573.88
Total No. of borrowers	583.66 Lakh
Women borrowers	361.59 Lakh (62%)
New Entrepreneurs	103.89 Lakh(18%)
SC/ST/OBC borrowers	282.79 Lakh (48%)
Mudra Card issued	404077

Source: Ministry of Finance (Department of Financial Services website)

7. Payment Banks

Small finance banks known as Payment Banks are engaged in basic banking activities like accepting deposits and lending to under-privileged sections, particularly to small and marginal farmers, micro and small industries and unorganized sector entities and small business enterprises. They also promote payment and remittance services through channels. They also issue debit cards.

The following are essential features of working of Payment Banks:

1. The primary objectives are to promote savings, supply of credit to small business units, marginal farmers, micro and small industries to speed up financial inclusion efforts.
2. The bank will engage in promoting basic banking activities of acceptance of deposits and lending.
3. The payment bank will extend 75 percent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) as per Reserve Bank of India norms. This apart, 50 percent of its loan portfolio should constitute loans and advance of up to Rs. 25 lakh.

The concept of promoting payment banks is another major step that will provide a leeway to strengthen to financial inclusion process.

8. Pradhan Mantri Suraksha Bima Yojana (PMSBY)

Under the PMSBY and also covering the beneficiaries of Atal Pension Yojana, 1055 banks including Public and Private Sectors, RRBs, Cooperative and foreign banks have made arrangements with 10 life insurance companies and 1045 banks have tied up with 10 general insurance companies for PMJJBY & PMSBY under the universal social security system especially to cover the poor and under-privileged. To facilitate the beneficiaries, a simple claim settlement procedure and process involving minimum documentation has been developed for minimizing settlement time. According to official report of them, 18.54 crore beneficiaries are enrolled under this schemes and as of March 2020, 39969 beneficiaries were disbursed the claims.

9. The comprehensive approach

It is perhaps for the first time that a comprehensive approach and inter linkages have been established to help the poor and thus achieving the goals of financial inclusion in true sense. There are two important aspects that need to be analyzed. First, extending finance without any support to productive projects will not serve the purpose. Over expansion of money will have adverse impact, the relationship may be non-linear as beyond a certain threshold (calculated to be above 100 per cent of GDP) finance is associated with negative growth (Berkes et. Al. 2012). Second, credit alone will not serve the purpose, there has to be perfect social security system to meet any kind of eventualities. The Financial Inclusion in its new incarnation takes care of these important aspects to a certain extent. The implementation and monitoring process has to be perfect for success of the PMJDY. This requires concrete efforts and concern from all the stake holders.

10. Beyond PMJDY: A challenge

The credit to the poor has been a political concern for all the governments. However, certain policy decisions in the past have done more harm than the good in effectively helping this strata despite the fact that more than thousands of crore public money spent to resolve the issue. As discussed in the beginning of this paper, there are several measures and strategies to tackle the issue of poverty in one way or the other. But the question arise if there is a genuine quest to effectively and systematically manage this crucial aspect at all levels. Another issue of importance is that the different governments have different approaches for the same cause, how legitimate it is?

The PMJDY per-se have different dimensions and approaches in terms of focus of the program, integrated approach of credit, insurance and pension, inter-operability through RuPay debit card, clarity in role and remuneration of Business Correspondence (BC) etc. But there are many issues that goes beyond PMJDY and need serious consideration. Some of the pertinent issues that could be the part of an effective public policy are;

i. The commercial banks are stuck with severe problem of non-performing assets (NPAs). According to Reserve Bank of India report-trends and banking 2016-17, the gross non-performing assets (GNPAs) increased to 9.3 per cent of bank credit and net non-performing assets (NNPAs) to a level of 5.3 per cent. Since the commercial banks have been operating on commercial principles and dealing with depositors' money, the increasing NPAs have direct impact on their efficiency. They cannot afford to this situation. Therefore, they have to be vigilant and cautious to arrest the increasing trend of NPAs. In their efforts, the liberal approach in providing loans to weaker sections is bound to have some setback.

ii. The commercial viability for small and medium enterprises funding will receive priority while taking up such projects for financing by banks. It will be equally applicable to PMJDY beneficiaries. Therefore, there is an immense need to ensure the viability part of all the small ventures. This requires a professional and systematic approach to make the small units viable at all levels. The policy initiatives will need to highlight this aspect and take adequate care.

iii. The problem of marketing linkages both, pre and post production have persisted more so in the rural areas. There are little efforts made to provide marketing support to small businesses and cottage units to procure raw materials timely and at the reasonable rates as well as selling their product to fetch appropriate price. There is a strong case for developing a mechanism whereby the beneficiaries of PMJDY could contribute in real terms in the growth process of both, their own as well the country.

iv. The majority of the people living below poverty line meet their livelihood and other means without any access to formal financial institutional system. They fulfill their credit requirements through unconventional sources at higher cost but without pains. This requires a look beyond PMJDY.

v. The experts on rural credit delivery system suggest that there should be least regulations. The RBI has ambitious plans for banks and expects that banks will play an important role. The important challenge will be to create high volume of transactions at low cost. This becomes more crucial for IT related services.

vi. The entire success of PMJDY is very much dependent on technology based financial services to the remote rural areas. The present situation of IT infrastructure at these places is very poor. It will be an uphill task to fill this gap.

vii. There are few other organizations supporting financial inclusion initiatives like National Bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI). They have formulated special schemes and given active support to fulfill this cause. All these efforts need to be translated into actual results on the ground level rather than remain as a package alone. The benefits have to be percolated down the line to reach the deserving beneficiaries.

viii. The most important requirement for success of this mission is not only to create sense of awareness among the beneficiaries but also to enthuse and motivate them to come forward and take up the required vocations through the available credit and become self sufficient to stand at their own in the course of time. The need for positive motivation to utilize all the resources is very much desired.

ix. The quality and efficiency of services in handling the pension plans, insurance schemes in case of need, will also be an effective tool for the success of Financial Inclusion.

x. The policy initiatives are very enthusiastic on the health insurance for the poor adequate arrangements made in the scheme to this effect. However earlier studies (Ravi & Rai 2011) reveal limited understanding of health insurance that results in much lower claims to coverage ratio for this segment. This requires a pro-active approach on the part of insurance firms.

11. Conclusion

The poor and the under-privileged in the pre-independence era were subjected to exploitation. This remains one part of the story. However, another concern is that there has been lot of experiments right from the independence in the direction of eradicating poverty. India is predominantly an agriculture based economy. There are a number of models experimented in the past to bring poor segment of the society above the poverty line but still it is a work in progress.

The existing policy and initiatives to launch PMJDY, if implemented in true sense with all commitment and active participation at all levels may prove a mile stone and a turning point in the growth process of the country in general and economically weaker sections in particular. The challenges are many that could be tackled through an effective public policy management to achieve Financial Inclusion. As a public policy, the government has taken up this task with a distinct approach and vision. There are number of initiatives implemented effectively to make it comprehensive and more effective. The program has taken care of direct transfer of social security benefits and other benefits to the beneficiaries' account to prevent the leakages. It has other provisions like, easy accessibility of assistance in case of exigencies, provision for financial assistance to take up productive vocations, health insurance schemes etc. If implementation process becomes effective and efficient at the grass root level, the financial inclusion program may bring more satisfaction to the needy and poor.

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