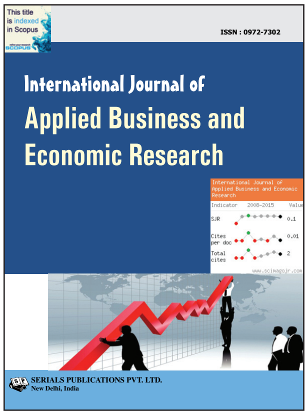

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Financial Inclusion through Pradhan Mantri Jan Dhan Yojana in India

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ABSTRACT

Finance is a powerful tool for the economic development of the country. To advance the process of financial inclusion, government launched Pradhan Mantri Jan-Dhan Yojana (PMJDY). This Yojana marks a landmark in the mission of "universal financial access". Its objective is to cover each and every household in the country with all the banking facilities along with insurance coverage. But along with the increase in numbers of bank accounts there does not appear to be corresponding increase in bank deposits for the banks through a substantial increase in the volume of transactions. Therefore, in order to find out the effectiveness of PMJDY in financial inclusion this study has been done. For the purpose of the study, both primary data and secondary data have been collected. Findings show that income and occupation of the households has significant impact and caste and education have no significant impact on the socio-economic condition of the beneficiaries of PMJDY. Therefore, Policy makers should work in close co-ordination with banks to improve the level of financial inclusion.

JEL-codes: G20, G21.

Keywords: Finance, Banking, Rural areas, PMJDY, Financial inclusion, financial services.

1. INTRODUCTION

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that fulfill their basic financial needs like transactions, payments, savings, credit and insurance delivered to them in a sustainable way (Rangarajan, C., 2008). According to World Bank, access to a bank account is a first step toward broader financial inclusion, people are more likely to use other financial services, such as credit and insurance, to start and expand their businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives.

According to Beck T. et. al., (2006), Access to financial services has been recognized as an important aspect of development and more emphasis is given to extending financial services to low-income households as the poor lack the education and knowledge needed to understand financial services that are available to them. The lack of financial access limits the range of services and credits for household and enterprises. Although there is some evidence that access is improving but still there are multiple factors which have affected the access to financial services (World Bank report).

In India, according to 2011 Census, out of 24.67 crore households in the country, 14.48 crore (58.7%) households had access to banking services. Of the 16.78 crore rural households, 9.14 crore (54.46%) and out of 7.89 crore urban households, 5.34 crore (67.68%) households were availing banking services. Therefore, it is estimated that 6 Crore households in rural and 1.5 Crore in urban area are financially excluded and hence needs to be covered. (PMJDY document)

Now, the task at hand is to provide Bank Account to every household in the country and make available the basic banking services facilities like, Opening of Bank Account, Cash Withdrawal & Deposits and Mobile Banking facility. Therefore, in order to provide Bank Account to every household in the country 'Pradhan Mantri Jan Dhan Yojana' was launched with a Comprehensive financial inclusion (FI) plan which is based on six pillars indicated as follows (Sharma N. and Goyal R. (2017). These are proposed to be achieved in two phases as under:

(a) Phase I (15 August 2014–14 August 2015) Universal access to banking facilities. Providing basic banking accounts for saving and remittance and RuPay debit card with in-built accident insurance cover of ₹1,00,000, RuPay card and Financial literacy programme.

(b) Phase II (15 August 2015–15 August 2018) Overdraft facility of up to ₹5,000 after six months of satisfactory performance of saving/credit history. (A Credit Guarantee Fund would be created for coverage of defaults in overdraft accounts). Micro-insurance and Unorganized sector pension schemes like Swavalamban (Sairabanu, C.K., 2015).

Singh and Naik (2014) assert that the most important factor for the success of financial inclusion would be changing the mindset of the financial institutions. Chopra (2014) defined that the new financial inclusion programme has the right intentions and addresses several design issues. In his view consumers will need to be well educated in order to take advantage from this initiative. Therefore in order to find out the effectiveness of PMJDY in financial inclusion this study has been undertaken.

In Indian context, most of the studies (Sharma, 2008) have used publicly available data to study the extent and determinants of financial inclusion. While research using primary data is limited and scarce, this paper uses primary data from geographically remote area such as Rajasthan to study the effects of PMJDY on the economic condition of the rural people.

The rest of the paper is structured as follows: section 2 covers literature on policies and practices of financial inclusion. Description of data and research methodology follows in section 3. Section 4 presents the results, followed by the interpretations. Finally, we conclude in section 5 by offering suggestions for banks to further the agenda of financial inclusion.

2. LITERATURE REVIEW

2.1. Policies and Practices of Financial Inclusion

2.1.1. Cross Country Analysis

Financial inclusion activities become one of the important agendas globally. The World Bank estimates that nearly 2.5bn adults globally (50% of the total adult population) is currently 'unbanked' or does not have formal financial services. These estimates have huge disparities between different regions of the world (World Bank report). Oommen M. A.(2015), In developed countries (OECD countries) high proportion of the adult population uses the formal way of financial services. While in developing countries two-thirds of the adult population are still financially excluded.

Kempson E. and Collard S.(2012), The U.K government has committed to tackle financial exclusion and undertook special proposals in three key areas: Access to banking services, Access to affordable credit and Access to money advice. Besides, all these a Financial Inclusion fund has been created to face financial exclusion. In USA, A civil rights law- Community Re-Investment Act (CRA) was enacted. This Act prohibits discrimination by banks against low and moderate-income population and imposes an affirmative and continuing responsibility on banks to fulfill the credit needs of the financially excluded population so that they can also come out from the grip of poverty (Gwalani H. and Parkhi S. (2014)).

Bhanot D. et. al., (2012), In 1984 a programme led by Professor Muhammad Yunus 'Grameen Bank' sowed the seeds of microfinance by providing loans to poor section of the community in a few villages. It offers small-sized loans to groups of customers52. The borrowers were formed into 'peer groups' of four or five individuals who were jointly made responsible for each other's repayment. The movement grew — Professor Yunus was supported by Bangladesh Bank and other commercial banks, which together funded the 'Grameen Project', which later evolved into the establishment of the Grameen Bank.In Bangladesh, mobile banking, which is termed as Mobile Financial Services (MFS), is effectively launched in March, 2011.

Kostov, P., et. al., (2015), In South Africa, a low-cost bank account called 'Mzansi' was launched for financially excluded people in 2004 by the South African Banking Association41. Noteworthy initiatives had been taken by government in promoting financial inclusion for individuals like Know Your Customer (KYC) framework to promote simplified bank accounts and mobile banking, regulating financial cooperatives, expanding use of electronic payment of social grants, improving consumer protection and market conduct, creating a contestable and proportionately regulated payment sector, leveraging the national payment system for financial inclusion, and connecting the less developed economy. These innovative schemes have granted exemptions to some of the documentation requirements that have impeded use of formal financial services.

Andrianivo M. and Kpodar K. (2011), In Kenya M-PESA (Pesa is money in Swahili) a mobile-phone based money transfer and microfinance service was launched by the telecom operator Safaricom in 2007. It was introduced to facilitate low-value money transfers (sending and receiving money). In Africa 68% of the adults are reported using mobile money. From the above studies, it can be concluded that through the use of various innovative practices the problem of financial exclusion can be checked.

Brazil, spread access to banking through agents called banking correspondents (BCs). BCs had existence in Brazil since the 1970s, but the active push came a little more than a decade ago with the regulation to broadened the range of services within the ambit of a BCs and ease in several other restrictions to increase the penetration of banking services in that country (Oji C.K. (2015)). As a result, the total number of bank accounts doubled within a span of 8 years from 2000 to 2008 from 63.7 million to 125.7 million thanks to 150,000. BCs account for about 62 percent of the total number of points of service in the financial system.

2.2. Trajectory of Financial Inclusion in India

In India financial inclusion started with the setting up of State Bank of India in 1955, to provide credit to the neglected and weaker sections of society. Nationalization of commercial banks was done in 1969 and 1980. Lead Bank Scheme was launched in 1970 in rural areas to expand financial inclusion (Kaur H., Singh K.N. (2015)). Another feature of the Indian social banking program was direct bank lending to priority sectors (which includes agriculture and small-scale industries), and within these sectors to individuals belonging to weaker sections of society especially the scheduled castes and scheduled tribes (SC/ST). In the year of 1982 the National Bank for Agriculture and Rural Development (NABARD) was set up with the goal to provide refinance to the banks extending credit to farmers, workers in rural areas for development of agricultural activities.

After 1990, The term 'Financial Inclusion' introduced for the first time in RBIs Annual Policy Statement for 2005-06, it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Key objective of Eleventh Five Year Plan (2007-12) was inclusive growth. Through these plans Indian economy had achieved a high growth momentum but unable to bring down unemployment and poverty to the desired levels. Thus, the Eleventh Plan Document tries to restructure the policies in order to make the growth faster, broad-based and inclusive. The main aim of the plan was to increase the level of income and employment opportunities in the country.100% Financial Inclusion drive was launched in the country.

In the year 2011, the Government of India gave a serious push to the program by undertaking the "Swabhimaan" campaign to cover over 74,000 villages, with population more than 2,000 (as per 2001 census), with banking facilities2. Because of the RBI's drive for financial inclusion, the number of bank accounts increased by about 100 million during 2011-13. Progress till 2017 is given in Table 1.

Table 1
Financial Inclusion Plan – A Progress Report

Particulars	*End-March 2010*	*End-March 2015*	*End-March 2016*	*End-March 2017*
Banking Outlets in Villages – Branches	33,378	49,571	51,830	50860
Banking Outlets in Villages – Total	67,694	553,713	586,307	598093
Urban Locations covered through BCs	447	96,847	102,552	102865
BSBDA-Through branches (No. in million)	60	210	238	254
BSBDA-Through branches (Amount billion)	44	365	474	691
BSBDA-Through BCs (No. in million)	13	188	231	280
BSBDA-Through BCs (Amount billion)	11	75	164	285
BSBDA-Total (No. in million)	73	398	469	533
BSBDA Total (Amount billion)	55	440	638	977
OD facility availed in BSBDAs (No. in million)	0.2	8	9	9
OD facility availed in BSBDAs (amount` billion)	0.1	20	29	17

Particulars	*End-March 2010*	*End-March 2015*	*End-March 2016*	*End-March 2017*
KCCs -Total (No. in million)	24	43	47	46
KCCs -Total (Amount billion)	1,240	4,382	5,131	5805
GCC-Total (No. in million)	1	9	11	13
GCC-Total (Amount billion)	35	1,302	1,493	2117
ICT-A/Cs-BC-Total Transactions (No. in million)	26.5	477.0	826.8	1159
ICT-A/Cs-BC-Total Transactions (Amount Billion)	6.9	859.8	1,687	2652

Sources: RBI Report 2017.

In Table 1, it is shown that total Banking Outlets in Villages was 67,694 in 2010 which rose to 598093 in 2017. Banking Correspondents (BCs) covered 447 Urban Locations in 2010 which increase to 102865 in the end of march 2017. The total no. of basic saving bank deposit account (BSBDA) in 2010 was 73 million and in 2017 it rose to 533 million. Overdraft facility availed by BSBDAs increased from 0.2 million to 9 million in 2017. The total no. of Kisan Credit Card was 24 million and General credit card was 1 million in 2010 and it becomes 46 million and 13 million in 2017.

Though the above plan achieves the target to some extent but was not a success, thus, the govt. launched 'PMJDY' which covers the failures of previous policies of financial inclusion. In Table 2, we discuss about the progress of PMJDY accounts, which clearly shows an increase in both the number of accounts opened and also the account balances under the PMJDY scheme. Highest number of bank accounts was opened by the public-sector banks. In 2014, 35.37 million accounts were opened which increased to 231.92 million in year 2017. Regional rural bank and private sector bank also shows a continuous increase in accessing people especially in rural areas. This table is graphically presented below in graph 1.

Table 2
Progress report of PMJDY bank accounts from 2014 to 2017.

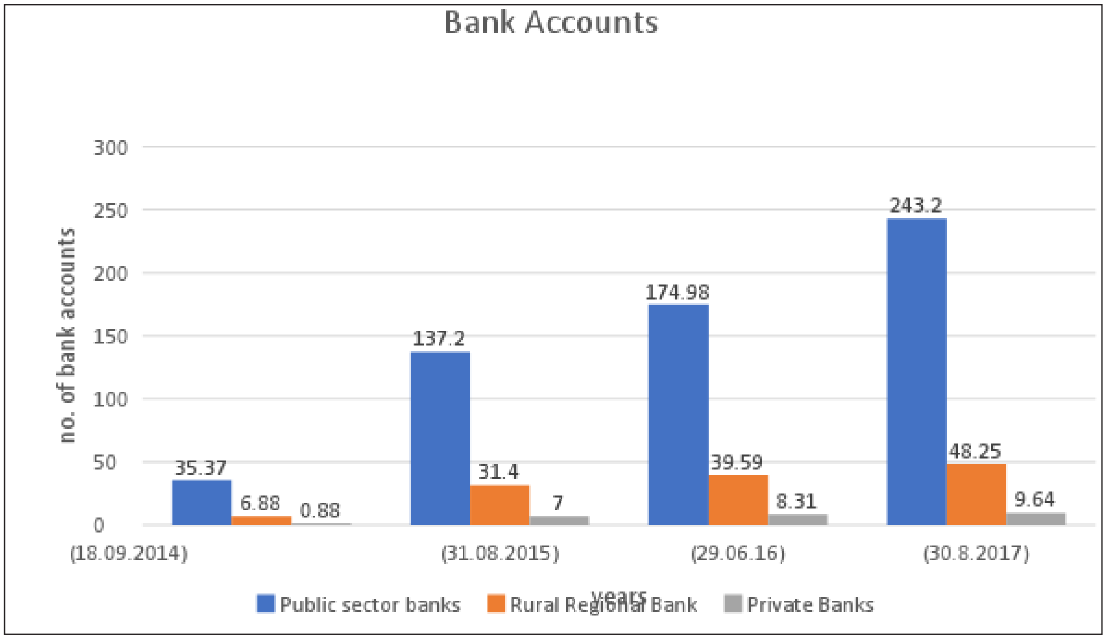
Bank	*(18.09.2014)*			*(31.08.2015)*			*(29.06.16)*			*(30.8.2017)*		
	Rural	*Urban*	*Total*	*Rural*	*Urban*	*Total*	*Rural*	*Urban*	*Total*	*Rural*	*Urban*	*Total*
Public sector banks	19.09	16.28	35.37	75.30	61.90	137.20	97.82	77.15	174.98	132.5	110.5	243.2
Rural Regional Bank	6.01	0.87	6.88	26.80	4.60	31.40	34.00	5.59	39.59	40.9	7.34	48.25
Private Banks	0.41	0.47	0.88	4.20	2.80	7.00	5.10	3.21	8.31	5.85	3.79	9.64

Source: www.pmjdy.gov.in

3. DATA AND RESEARCH METHODOLOGY

3.1. Sample Data and Study Variables

The paper used primary data from rural areas of Jaipur district in Rajasthan. Budget and time constraint restricted the sample size to 415 households. Jaipur district is relatively well developed in comparison to other district, if we found persistent financial exclusion in this district where financial inclusion is expected to be high, then financial exclusion is more than likely to be prevalent elsewhere.



Graph 1
***Sources:* By author**

A structured questionnaire was used for data collection (spread over four months from June 2016 to October 2016). Which was based on the literature and on our research questions, questions asked were about family background, income, bank access information, awareness about PMJDY and state financial inclusion schemes and their benefits. In the given sample size of 415 households, Majority of the households were of Scheduled tribe category. The occupation of the households is primarily self-employed and daily wage earner which constitutes 37.6 and 27.2 percent.35.7 percent of the households has annual income above three lakhs. It has seen that 11.6% respondents were illiterate and 28.7% respondents were above primary education.

Table 3
List of variables along with code sheet and reference category

Variable Name	*Codes/values*	*(%)*
1. Education	1: Illiterate	11.6
	2: literate	26.3
	3: primary education	33.5
	4: Above primary education	28.7
2. Caste	1: General	8.9
	2: OBC	33.0
	3: SC	5.5
	4: ST	52.5
3. Occupation	1: Govt. employee	7.0
	2: Private employee	28.2
	3: Self-employed	37.6
	4: Daily wage earner	27.2

Variable Name	*Codes/values*	*(%)*
4 Annual income (in Rs.)	1: up to 1 lakh	6.5
	2: 1 lakh – 2 lakh	6.5
	3: 2 lakh – 3 lakh	38.3
	4: Above 3 lakh	38.3
5. Sources of financial information	1: Bank mitr	
	2: Media (T.V)	28.
	3: Newspaper	5.3
	4: Others	66.7
6. Distance from bank	1: < 1 km	0.1
	2: 1 - 2 km	8.2
	3: 2 - 3 km	44.6
	4: Above 3 km	47.2
7. PMJDY is beneficial	1: Yes	72.2
	2: No	27.8
8. Awareness about overdraft facility	1: Yes	70.6
	2: No	29.4

Source: By author

4. FINDINGS AND INTERPRETATIONS

Pearson's chi-squared test ($\chi 2$)/Chi-Square test is a statistical test applied to sets of categorical data to measure association between different values of a variable (one variable) or between categories of different variables. Therefore, chi-square test is used to determine the association between the demographic variables and improvement in their socio-economic condition due to PMJDY.

Quantifying the significance test statistics:

Variables	*chi-square X2*	*df*	*likelihood ratio*	*significance p value*
Education	25.374	12	25.019	.013
Caste	74.707	12	75.158	.001
Annual income	76.175	20	74.865	.000
Occupation	79.253	16	75.455	.001
Sources of financial information	82.196	12	78.762	.001
Distance from bank	46.007	12	46.296	.000
Awareness about overdraft facility	37.169	8	41.385	.001

Source: By author

The result shows that education ($\chi 2 = 25.374$, df = 12, $p < 0.013$) is statistically significant and is directly associated with socio-economic condition of the households. Households with at least one high school graduate and higher were significantly less likely to be excluded as compared with those without a member with a similar education. Caste ($\chi 2 = 74.707$, df = 12, $p < 0.01$), shows that the lowest caste (scheduled tribe: ST) is hardly excluded as 52.5% have access to bank account. This is most likely due to planned government programs designed to provide preferential treatment to people who are ST and were discriminated against for numerous generations (Cnan R. et. al., 2012). Annual income is also statistically significant ($\chi 2 = 76.175$, df = 20, $p < 0.000$), shows that the benefits received from PMJDY improves the level of income of the rural households.

Occupation is also statistically significant ($\chi 2 = 79.253$, df = 16, $p < 0.001$), shows that household who are self-employed and daily wage earner are benefitted from PMJDY and it helps to improve their economic level. Far distance from bank shows that people are more likely to be excluded than the people living near to the bank. Awareness about overdraft facility is statistically significant as people who are aware of overdraft facility take the advantage of it and improve their economic life.

5. CONCLUSION

Based on our sample, it can be concluded that the PMJDY has improves the socio-economic condition of the beneficiaries. The findings of this research are helpful in understanding the influence of variety of demographic factors on the socio-economic aspects of the rural households. The findings are as follows: Income and Occupation of respondents of the households have positive impact on the economic life of the beneficiaries. Pradhan Mantri Jan Dhan Yojana is a remarkable policy adopted by the government of India. This yojana has positive impact on the socio-economic life of the rural and weaker section of the society. Thus, government should work in close co-ordination with the banks and other intermediary such as state government to spread financial information as those efforts are seen to directly impact economic aspects of the poor people.

In this regard we have two suggestions to offer:

1. Banks should persuade policy makers and Government to spread financial information, as those efforts are seen to directly impact their economy, and
2. Banks should also take initiative in geographically remote areas to aware people about such government policies, so that more and more people get benefit from such schemes.

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