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Effectiveness of Pradhan Mantri Jan Dhan Yojana in financial inclusion: Evidence from Rajasthan (India)

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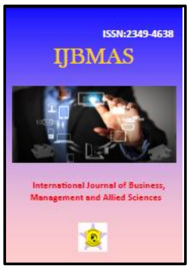


ABSTRACT

A countries socio- economic development is marked with the establishment of a stable and useful financial system.Since independence, Indian government implemented many financial inclusion initiatives but it did not achieve desired objective. Now in order to overcome the loopholes of previous initiatives government launched Pradhan Mantri Jan-Dhan Yojana (PMJDY). PMJDY is major financial plan with the objective of covering all households in the country with banking facilities along with insurance coverage. With this background, the study has been conducted and tries to find out the effectiveness of PMJDY in financial inclusion. For the purpose of the study, both primary data and secondary data have been collected. Primary data were collected via structured questionnaire from 307 households fromrural areas of Rajasthan. Factors significantly contributing to inclusion were identified using mean, standard deviation and chi square test. Findings shows that Income, awareness of PMJDY are influential factors leading to inclusion. Nearness to banks increases the likelihood of inclusion. Banks and policy makers should work in close co-ordination to spread financial information as those efforts are seen to directly impact inclusion, thereby providing new business opportunities to banks.

Keywords- Finance, Banking, India, Banks, Rural areas, PMJDY, Financial inclusion, financial services

Introduction

Financial inclusion is about (a) the broadening of financial services to those people and enterprises who do not have access to financial services sector; (b) the deepening of financial services for those who have minimal financial services; and (c) greater financial literacy and consumer protection so that those who are offered financial products can make appropriate choices. The imperative for financial inclusion is both a moral one as well as one based on economic efficiency.

Globally, 2.5 billion adults don't use formal financial services. Among them 2.2 billion lives in developing countries. Amongst India's rural poor, 70 percent of marginal/landless farmers do not have a bank account and 87 percent have no access to credit from a formal source. Problem of exclusion is more in rural India where people are connected to agriculture related activities, non-institutional credit is more prevalent in rural area than in urban area. About 5.92 crore rural households are yet to be covered.

Now, the task at hand is to provide Bank Account to every household in the country and make available the basic banking services facilities i.e. (i) Opening of Bank Account with RuPay Debit Card & Mobile Banking facility, (ii) Cash Withdrawal & Deposits,(iii) Transfer, (iv) Balance Enquiry & (v)Mini Statement. Other services will be provided in due course in a time bound manner apart from financial literacy which is to be disseminated side by side to make citizens capable to use optimum utilization of available financial services. To provide these banking services banking outlets to be provided within 5 KM distance of every village.

The experience innovations described above have fed into the newly launched Pradhan Mantri Jan-Dhan Yojana (PMJDY). The PMJDY seeks to ensure access to various financial services like availability of basic savings bank account, access to need-based credit, remittances facility, insurance and pension to the excluded sections,i.e., weaker sections and low-income groups.

Comprehensive financial inclusion (FI) under the mission is based on six pillars indicated as follows. These are proposed to be achieved in two phases as under:(a) Phase I (15 August 2014–14 August 2015)

1. Universal access to banking facilities.
2. Providing basic banking accounts for saving and remittance and RuPay debit card with in-built accident insurance cover of Rs. 1,00,000 and RuPay card.
3. Financial literacy programme.

(b) Phase II (15 August 2015–15 August 2018)

4. Overdraft facility of up to Rs. 5,000 after six months of satisfactory performance of saving/credit history.(A Credit Guarantee Fund would be created forncoverage of defaults in overdraft accounts.)
5. Micro-insurance.
6. Unorganized sector pension schemes like Swavalamban.

But along with the increase in numbers of bank accounts there does not appear to be corresponding increase in bank deposits or revenue generation for the banks and the other intermediaries through a substantial increase in the volume of transactions.

While some blame is to be placed at the door of the banks at the slow progress and reluctance to bear the costs of the social objective, it is equally apparent that sound and replicable business model has not emerged. Therefore, the objective of this paper is to find out the Effectiveness of recently launched financial inclusion scheme “Pradhan Mantri Jan Dhan Yojana” in financial inclusion.

The rest of the paper is structured as follows: section 2 covers literature on trajectory of financial inclusion initiatives. 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. Review of literature:

Chakarvarty K. C. (2011) defined Financial inclusion as credible access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner from mainstream institutional player.

Andrianaivo M. and Kpodar K. (2011), examines that financial inclusion could be one of the channels through which mobile phone diffusion contributes to growth. The results of the estimations reveal that ICT development (captured by the penetration rates of mobile and fixed telephone and communication costs) contribute to economic growth in Africa. The interaction between mobile phone penetration and financial inclusion is found positive and significant in the growth regression, the joint impact of financial inclusion and mobile phone diffusion on growth is stronger.

Kempson E. and Collard S. (2012), revealed the need for targeted work on various aspects of financial capability, including: information on choosing and using appropriate products; guidance on using transaction banking services and maintaining control over one's finances; and promoting both a saving culture and a shift from borrowing to saving.

Chattopadhyay S., Defined that financial inclusion is not only socio-political imperative but also an economic one. It is observed from the study that although there has been an improvement in outreach activity, heterogeneity across states has increased.

Barhate G. H. and Jagtap V. R.(2014),concluded that financial inclusion requires sustained efforts over many years and emphasis on quality rather than quantity should be the priority. Government should review the speed at which it is currently targeting to achieve the goal of covering the whole India with bank accounts. A bold step is required to withstand the heat of economic down surge and fight poverty and the PMJDY is definitely a good fighting mechanism to check the poverty.

Bhanot D. et. al (2012), concluded that, respondents are more likely to be financially included at closer distances from Post Office (as against banks). Financial information from various sources (which serves the role of financial education/advice and imparts financial literacy) has helped to increase inclusion. Thus, banks and policy makers should work in close co-ordination to spread financial information as those efforts are seen to directly impact their business.

Mehrotra A. and Yetman J. (2015), Concludes that increased financial inclusion facilitates consumption smoothing, as households have easier access to instruments for saving and borrowing. As a result, output volatility is no longer as costly. This may facilitate central banks' efforts to maintain price stability.

Pradhan N. C. (2013), defined that financial inclusion is the road which India needs to travel towards becoming a global player. An inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process.

3. Progress of financial inclusion:

The RBI created a conducive and enabling environment for access to financial services to extend door step banking facilities in all the unbanked villages in a phased manner. A structured and planned approach to financial inclusion was followed wherein banks prepared Board approved Financial Inclusion Plans (FIPs) congruent with their business strategies. Its progress has been shown below in table 1.

The recently launched Pradhan Mantri Jan-Dhan Yojana (PMJDY) appears to address most of the concerns related to a more concrete and substantial engagement with the poor as part of a financial inclusion strategy to be undertaken in a mission mode. Table 2 clearly show an increase both in the number of accounts opened and also the account balances under the PMJDY scheme. Highest number of bank accounts were 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.

Table 1, shows a particular rise in Banking Outlets in Villages from 67,694 in 2010 to 586,307 in 2016.Urban Locations covered through BCs was 447 in 2010 which rises to 102,552 in 2016.BSBDA Total was 55 billion in 2010 which increased to 638billion in 2016.Total no. of KCCs was 1,240 billion in 2010 which rose to 5,131 billion in 2016.

Table I: Financial Inclusion Plan – A Progress Report

Particulars	End-March 2010	End-March 2015	End-March 2016
Banking Outlets in Villages – Branches	33,378	49,571	51,830
Banking Outlets in Villages – Branchless Mode	34,316	504,142 5	34,477
Banking Outlets in Villages –Total	67,694	553,713	586,307
Urban Locations covered through BCs	447	96,847	102,552
BSBDA-Through branches (No. in million)	60	210	238
BSBDA-Through branches (` billion)	44	365	474
BSBDA-Through BCs (No. in million)	13	188	231
BSBDA-Through BCs (` billion)	11	75	164
BSBDA-Total (No. in million)	73	398	469
BSBDA Total (` billion)	55	440	638
OD facility availed in BSBDAs (No. in million)	0.2	8	9
OD facility availed in BSBDAs (` billion)	0.1	20	29
KCCs -Total (No. in million)	24	43	47
KCCs -Total (` billion)	1,240	4,382	5,131
GCC-Total (No. in million)	1	9	11
GCC-Total (` billion)	35	1,302	1,493
ICT-A/Cs-BC-Total Transactions (No. in million)	26.5	477.0	826.8
ICT-A/Cs-BC-Total Transactions (` billion)	6.9	859.8	1,686.9

Source: www.pmjdy.gov.in

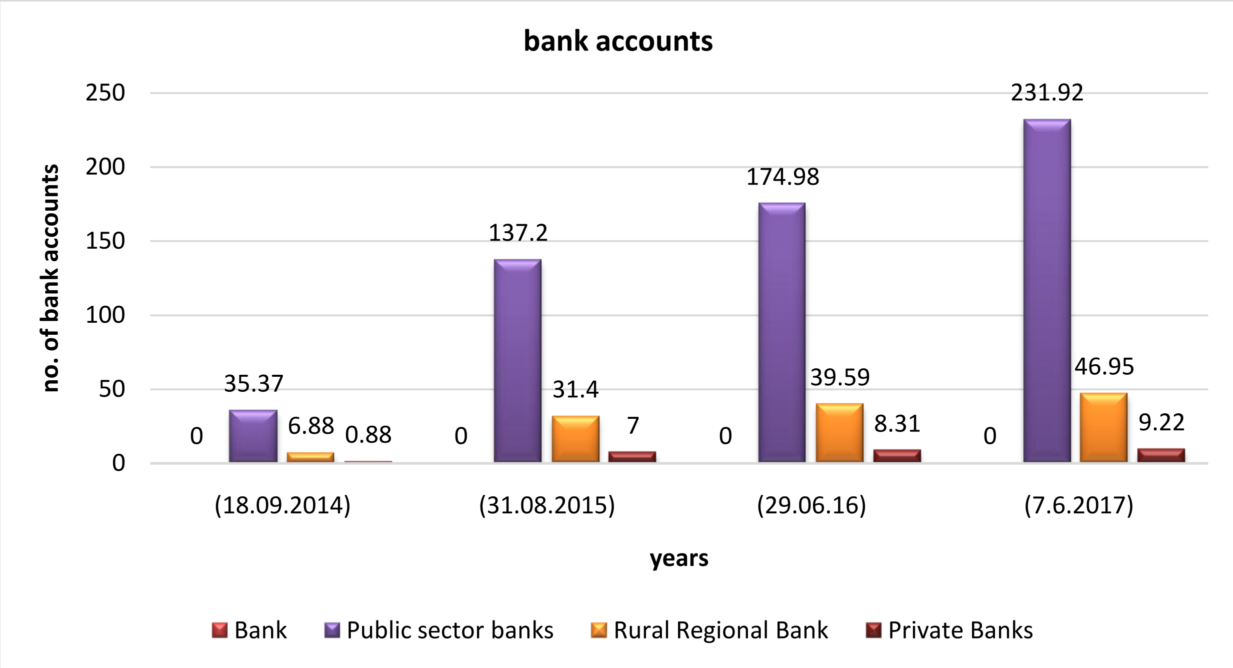
Table 2 Progress report of PMJDY bank accounts from 2014 to 2017.

	(18.09.2014)			(31.08.2015)			(29.06.16)			(7.6.2017)		
Bank	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	126.73	105.18	231.92
Rural Regional Bank	6.01	0.87	6.88	26.80	4.60	31.40	34.00	5.59	39.59	39.92	7.03	46.95
Private Banks	0.41	0.47	0.88	4.20	2.80	7.00	5.10	3.21	8.31	5.56	3.66	9.22

Source: www.pmjdy.gov.in

Data of table 2 are shown graphically in figure 1.

Figure 1



4. Research Methodology:

Sampling design: 307 rural households of Jaipur district has been selected (constitutes 1825 individuals). 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.

Methods of data collection: Both primary and secondary data has been used. A structured questionnaire was developed for the primary data collection. However secondary data sources have also been used to have a deep understanding of the topic. Official websites of department of finance ministry, PMJDY website and other related papers are used.

Research tools: Data collected for the study have been analyzed and presented in tables and graphs. Statistical tools such as Simple percentage, Mean, Standard deviation and chi square test have been used.

4.2 Research Hypothesis

H01: Income and having a bank account are independent.

H02: There is no relationship between awareness of PMJDY and having a bank account.

H03: Awareness of PMJDY and availing insurance facilities are independent.

In Table 3 we provide a quick snapshot of the profile of respondents. In the given sample size of 307 households, with 1,825 individuals, 80.1 percent respondents are financially included (i.e. they possess bank account). With regards to education the highest (most) educated member of the household was considered. Data on annual income is representative of the aggregate household income. The low-income households (annual income, less than 1 lakh) were only 6.2% and 39.5% respondents reported annual income greater than 3 lakhs.

33.9% of households are aware of PMJDY whereas 60% are unknown to this scheme. Percentage of households availing insurance facilities is 33.9%.

KY Publications

Table 3

Variable	Name	Codes/ values	(%)
1	Education	1: Illiterate	81.5
		2: literate	56.5
		3: primary education	34
		4: Above primary education	90.5
2	Annual income (in Rs.)	1: up to 1lakh	6.2
		2: 1lakh – 2lakh	17.6
		3: 2lakh – 3lakh	36.6
		4: Above 3lakh	39.5
3	Bank account	1: Yes	80.1
		2: No	19.2
4	Aware about PMJDY	0: Not applicable	
		1: Yes	33.9
		2: No	60.1
5	insurance	0: Not applicable	
		1: Yes	33.9
		2: No	47.2

Source: Primary data

H01: Income and possessing a bank account are independent.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	143.671^{a}	6	.0001
Likelihood Ratio	124.490	6	.0001
Linear-by-Linear Association	91.752	1	.0001
N of Valid Cases	306		

a. 5 cells (41.7%) have expected count less than 5. The minimum expected count is .06.

Result shows that Since the P-value (0.0001) is less than the significance level (0.05), we cannot accept the null hypothesis. Thus, we conclude that there is a relationship between income and having a bank account. Therefore, we can say that income is directly related to bank account.

H02: There is no relationship between awareness of PMJDY and having a bank account.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	36.064^{a}	3	.0001
Likelihood Ratio	49.129	3	.0001
Linear-by-Linear Association	25.552	1	.0001
N of Valid Cases	307		

a. 4 cells (50.0%) have expected count less than 5. The minimum expected count is .34.

Result shows that Since the P-value (0.0001) is less than the significance level (0.05), we cannot accept the null hypothesis. Thus, we conclude that there is a relationship between awareness level of PMJDY and having a bank account. Therefore, we can say that if people are aware of PMJDY than they are more likely to have bank account.

H03: Awareness of PMJDY and availing insurance facilities are independent.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	84.785[a]	1	.0001		
Continuity Correction[b]	82.576	1	.0001		
Likelihood Ratio	94.201	1	.0001		
Fisher's Exact Test				.000	.000
Linear-by-Linear Association	84.509	1	.0001		
N of Valid Cases	307				

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 49.12.

b. Computed only for a 2x2 table

Result shows that Since the P-value (0.0001) is less than the significance level (0.05), we cannot accept the null hypothesis. Thus, we conclude that there is a relationship between awareness level of PMJDY and availing an insurance facility. Therefore, we can say that if people are aware of PMJDY than they are more likely to avail insurance facility.

5. Conclusion

The findings of this research are helpful in understanding the influence of variety of factors on the access to banking services of rural households. The findings are as follows:

High income level of respondents shows higher degree of financial inclusion. The significant contribution of PMJDY awareness in linking the marginalized with the formal banking institutions is revealed. Awareness of PMJDY is directly related to opening bank accounts and availing insurance facilities. Thus banks and policy makers should work in close co-ordination to spread financial information as those efforts are seen to directly impact their business. In this regard we have two suggestions to offer:

(1) banks should persuade policy makers and Government to spread financial information, as their efforts are seen to directly impact economic condition.

(2) banks should also take more interest in spreading financial information. Banks are suggested to put efforts to tap low-income households in rural areas, because awareness about govt. initiatives increases their standard of living.

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