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PRADHAN MANTRI JAN DHAN YOJANA

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PART I : CONCERNS

The Prime Minister of India, in his independence day speech on 15th August 2014 had announced the National Mission on Financial Inclusion with the objective of covering all households in the country with banking facilities, titled, "Pradhan Mantri Jan Dhan Yojana" (PMJDY). On 29 August 2014, PMJDY was launched with an ambitious target of opening 7.5 crore bank accounts by 26 January 2015.This should be seen as a continuum of Financial Inclusion effort started by the United Progressive Alliance (UPA) government.

Under the scheme, a person from an unbanked household, opening an account will get a RuPay debit card with Rs. 1 lakh accident insurance cover, among other provisions. An additional Rs. 30,000 life insurance cover for the accounts opened up to 26th January, 2015 was also announced by the Prime Minister.

Under the PMJDY, all Government benefits (from Centre/ State/ Local body) will be channelled to the accounts of the beneficiaries through the Direct Benefits Transfer (DBT) scheme of the Union Government (Started during the UPA 2 Government).

However there is a lack of clarity on various aspects of the Pradhan Mantri Jan Dhan Yojana. There are concerns regarding:

- Duplication of accounts: People who enrol under the PMJDY may have accounts elsewhere and could have been persuaded to open new ones because of the attached insurance cover.

- The mechanism for funding the overdraft facility: The scheme promises every account holder a RuPay debit card and an overdraft facility of Rs.5,000. But there is no clarity on how the expenses for this service would be met.

- Lack of clarity over the insurance cover – There exists lack of information on two important aspects:
    a) the maturity of the insurance cover is not specified
    b) who would bear the burden of the premium is uncertain

- The immediate and the biggest challenge for the Government would be to figure out the financial viability of maintaining the accounts and the linked insurance schemes.

PART II : CONTEXT

Financial Inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. Banking services are in the nature of public product, hence the availability of banking and payment services to the entire population without discrimination is the prime objective of financial inclusion in public policy. With a bank account every household gains access to banking and credit facilities. This will enable them to come out of the grip of money lenders, manage to keep away from financial crises caused by emergent needs and most importantly, benefit from a range of financial products.

Congress led government, had started various initiatives in order to ensure financial inclusion. These include nationalisation of banks (1969), Expansion of banks branch network (2011), establishment and expansion of cooperative and regional rural banks, introduction of priority sector lending and introduction of Lead Bank Scheme (1969). The UPA governments in the last decade focused on:

- Formation of self help groups (SHGs) and state specific approach for government sponsored schemes to be evolved by State Level Bankers Committee

- Use of the services of non-governmental organisations (NGO), SHGs and micro finance institutions as intermediaries in providing banking services through use of "Business Facilitator and Business Correspondent (BCs) Model." BCs are representatives of banks to provide basic banking services i.e. opening of basic bank accounts, cash deposits, cash withdrawals, transfer of funds, balance enquiries, mini statements etc.

The UPA government initiated the "Swabhimaan" Campaign in 2011 along with the "Indian Bank" Association through BCs to extend the banking coverage in unbanked areas. Under this scheme all banks through the forum of State Level Banker Committees had identified approximately 73,000 habitations having a population of over 2,000 for providing banking facilities. These habitations were then allocated to Commercial Banks, Regional Rural Banks and Cooperative Banks for providing banking facilities in a time bound manner.[i]The other important Provisions of the Swabhimaan campaign were:

- It aimed at increasing the demand for credit among the millions of small and marginal farmers and rural artisans who will benefit by having access to banking facilities.
- This financial inclusion campaign aims at providing branchless banking services through the use of technology.
- Banks provide basic services like deposits, withdrawals and remittances using the services of Business Correspondents (BCs) also known as Bank Saathi.
- The initiative also enables Government subsidies and social security benefits to now be directly credited to the accounts of the beneficiaries so that they could draw the money from the Business Correspondents (BCs) in their village itself.
- The Government hopes that the benefits of micro insurance and micro pension products reach the masses through this banking linkage.
- This programme now makes it possible for the large number of migrant workers in urban areas to remit money to their relatives in distant villages quickly and safely.
- The facilities provided through banking outlets will enhance social security by facilitating the availability of allied services in course of time like micro insurance, access to mutual funds, pensions, etc.
- Banking facilities like Savings Bank, recurring Deposits, Fixed deposits, Remittances, Overdraft facility, Kisan Credit Card (KCCs), General Credit Cards (GCC) and collection of cheques will be provided.
- The Banks are also working together with the Unique Identification Authority of India (UIDAI) for enrolment, opening bank accounts and also to facilitate transfer of government subsidies and other payments.[ii]

As per Census, 2011, out of 24.67 crore households in the country 14.48 crore (58.7 percent) household had access to banking services. Of the 16.78 crore rural household, 9.14 crore (54.46 percent) were availing bank services. Of the 7.89 crore urban household, 5.34 crores (67.68 percent) household were availing banking services.

The present banking network of the country (as on 31.03.2014) comprises of a bank branch network of 1,15,082 and an ATM Network of 1,60,055. Of these 38.2 percent bank branches and 14.58 percent ATMs are in rural areas. Moreover, there are more than 1.4 lakh BCs of Public Sector Banks and Regional Rural Banks in the rural areas. It is estimated that 6 crore household in rural areas and 1.5 crores in urban areas still need to be covered with banking facilities.

PART III : PROVISIONS OF PMJDY

- There are 6 objectives of PMJDY. During phase 1 (15.08.2014 to 14.08.2015), three objectives will be implemented. These are - Universal access to banking facilities, financial literacy programme, providing basic banking accounts with overdraft facilities of RS 5000 after 6 months and RuPay debit card with- in build accident insurance cover of Rs 1 lakh and RuPay Kisaan Card.

- In phase 2 of PMJDY (15.08.2015 to 14.08.2018), three objectives will be implemented. These are - creation of Credit Guarantee Fund for coverage of defaults in over draft accounts, Micro Insurance and unorganised sector pension schemes like Swavlamban. In addition in this phase coverage of households in hilly, tribal and difficult areas would be carried out. This phase would also focus on coverage of remaining adults in the households and students.

- The implementation strategy of PMJDY is to utilise the existing banking infrastructure as well as expand the same to enrol over 7 crore household and open their bank accounts.

- The banking sector would be expanded to set up an additional 50 thousand Business Correspondents (BCs), more than 7 thousand new branches and more than 20 thousand new ATMs.

- Phase wise and State wise targets for banks have been fixed. Roles of various stake holders like other departments of the Central Governments, State Governments, Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD), National Payment Corporation of India (NPCI) and others have been indicated.

PMJDY would be monitored by a mission headed by the Finance Minister.[iii]

PART IV : SIMILARITY BETWEEN THE OLD FINANCIAL INCLUSION PROGRAMME AND PMJDY

- Each Household to have at least one bank account: "Banks have been advised to ensure service area bank in rural areas and banks assigned the responsibility in specific wards in urban area to ensure that every household has at least one bank account". This is not from the Jan Dhan scheme document, but from a one year-old document by the finance ministry. Targeting households is an old idea.[4]

- Mobile Banking: A second aspect of the project is using mobile banking. Here is a quote from the same 2013 document. "National Payments Corporation of India (NPCI) worked upon a "Common USSD Platform" for all Banks and Telcos who wish to offer the facility of Mobile Banking using Unstructured Supplementary Service Data (USSD) based Mobile Banking." Mobile banking is not new, too.[4]

- Banking reach: The government had issued a detailed guideline on financial inclusion back in October 2011, advising banks to open branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts. Out of 3,925 such identified locations, branches have been opened in 3,402 by end of April 2013. All the 129 unbanked blocks identified in the country in July 2009 had been provided with banking facilities by March 2012, according to the finance ministry.[4]

- Direct Benefit Transfer (DBT): The DBT scheme was launched in January 2013 and was being rolled out in phases. Thereafter, the government started the transfer of cash subsidy for domestic LPG cylinders to Aadhaar-linked bank accounts from June 1, 2013.[iv]

Comparison between Old Financial Inclusion Programme and New Programme : PMJDY[v]

Old Programme	New Programme: PMJDY
Village based approach for villages where population greater than 2000 (Limited Geography) to be covered	Households in all villages to be covered
Only Rural to be covered	Both Rural and Urban to be covered
Mobile BC	Fixed Point BC in each SSA comprising of 3 to 4 villages.
Focus on opening of Basic Savings Bank Deposit Accounts (BSBDA)	Focus on Financial Literacy, opening of BSBDA Account, Convergence with other subsidy schemes& Micro Insurance/Pension, RuPay Debit Card, USSD Scheme, Kisan Credit Card
Monitoring by banks	Monitoring Mechanism at Centre, State, District level. Active participation of state and district emphasized.
Operation of Accounts offline; separate server.	Accounts on line 'on CBS of banks. Provision of RuPay Card to each account holder giving him freedom to operate anywhere

PART V: SHORTCOMINGS OF PMJDY

There are two aspects to financial inclusion –one is bank accounts and the second is access to credits. The scheme announced by the Prime Minister addresses the first problem. The issue of making credit available to small borrowers remains,"said Mr C.Rangarajan, the former Chairman of the Economic Advisory Council to the Prime Minister under UPA Government.[vi]

While it may be easy to achieve the target of opening 7.5 crore bank accounts by January 2015, the real challenge is of keeping these accounts running and alive. Some banking experts have noted that the financial viability of running these crores of accounts would depend on the minimum balances maintained in these accounts and the number of transactions carried out in a year.

Keeping these accounts running, the insurance claim system functional funnelling money through cash transfer mechanism or DBT and making the over draft facilities financially viable will imply costs for different financial sector institutions. Or more likely these costs would have to be subsidised by the Government. These aspects of PMJDY are yet to be fleshed out by NDA Government.

The overdraft facility that PMJDY commits could be valuable for the poor but there is no clarity on where the funds would be diverted from to finance it. It has been suggested that the overdraft facility will be guaranteed by Rs 1,000 crore fund from NABARD. But this may not be sufficient if the overdraft facility really takes off. Assuming one account each for 7.5 crore households, an overdraft facility of Rs 5,000 each amounts to Rs 37,500 crore. Even if one is to assume a risk proportion of 20-25 percent, it would imply a minimum of Rs7,000 crore loss to the banking sector.

A more fundamental question that PMJDY has not yet resolved is the last mile connectivity which is essential for financial inclusion. The NDA Government says that it would be based on Banking Correspondents (BCs). If one is to expect these BCs to earn even Rs 1,000 a month from acting as the last mile connector, the previous UPA government had assessed that it would require moving the entire social sector subsidy bill (including MGNREGA wages, food fertilizer and kerosene subsidies) through the BCs channel. This has not really happened so far. While India already has 1.4 lakh BCs most of them do not really work. Hiring an additional 50 thousand BCs is bound to not be productive either unless the BCs Model is made economically viable.[vii]

PART VI: REFERENCES

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