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Expansion of Financial Inclusion through Flagship Programmes in India: Progress, Opportunities and Challenges

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Abstract: Financial inclusion approach as a development objective has received tremendous attention of both global and nation-level policymakers. In India the basic concept of financial inclusion is having a saving or a current account with any bank. Financial inclusion can help the down trodden to improve their financial condition and the standard of living. A majority of population, particularly the low income groups, continues to remains without bank account and excluded from the financial services. Having a bank account is the first step towards the financial inclusion of the rural poor. Therefore, opening up of bank accounts are a first step to financial inclusion. *F*inancial inclusion is a remedy of financial exclusion and it process of making formal financial services accessible and affordable to all the households. Against this backdrop, this paper is an attempt to analyses the two major flagship programmes which have been implemented by Government of India for accelerate financial inclusion.

Keywords: Financial inclusion, MGNREGS, PMJDY, Bank account, poor, India

I. INTRODUCTION

Financial inclusion approach as a development objective has received tremendous attention of both global and nation-level policymakers. A well-functioning and inclusive financial system can play a critical role in the efficient allocation of resources in a liberalised economy. Policymakers have been embracing the fact that financial inclusion also facilitates the efficient delivery of other social programmes [1]. Accordingly, achieving greater financial inclusion now tops the policy priorities for inclusive growth in India. Therefore, in the recent years the government and Reserve Bank of India have been pushing the concept and idea of financial inclusion. The definition of financial inclusion given by Dr Rangarajan Committee (2008) is now commonly accepted as the norm. The Committee has defined financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost" [2]. Financial inclusion can help the down trodden to improve their financial condition and the standard of living. According to Ellis et al (2010), financial inclusion provides poor households with opportunities to build savings, make investments and access credit [3].

Financial inclusion is the key to empowerment of any person or household which can help the down trodden to improve their financial condition and the standard of living. Financial services do not mean the provision of credit alone, but the provision of all other services, especially savings, insurance and remittance facilities [4]. A majority of poor families, particularly the low income groups, continues to remains without bank account and excluded from the financial services. Even after 70 years of independence of India, a large section of Indian population still remains without bank account. According to Narasimhan (2014), around 10.2 crore households of the total 24.67 crore households in the country do not have access to banking services. In rural areas, 44 per cent households and in urban areas 33 per cent still do not have a bank account [5]. Therefore, opening up of bank accounts are a first step to financial inclusion. Financial inclusion is a remedy of f-inancial exclusion and it process of making formal financial services accessible and affordable to all the households. Against this backdrop, the present paper an attempts to analyse the two major flagship programmes which have been implemented by Government of India for accelerate financial inclusion.

Financial inclusion and alternatively, financial exclusion has been defined by organisations / committees and authors in the literature in the context of a larger issue of social inclusion or exclusion in a society (Table 1).

Table 1: Evolving definitions of financial inclusion over the years.

Institution /Author	Definition	Indicators / Formal
ADB (2000)	Provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to poor and low-income	Deposits, loans, payment services, money transfer and insurance

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	households and their micro-enterprises.	
Stephen P. Sinclair (2001)	Financial exclusion is the inability to access necessary financial services in an approximate form. Exclusion can come about as a result of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions.	Basic banking services for money transmission, credit, insurance, debt and debt assistance, long-term savings and financial literacy.
Chant Link and Associates, Australia (2004)	Financial exclusion is lack of access by certain consumers to appropriate low cost, fair and safe financial products and services from mainstream providers. Financial exclusion becomes a concern in the community when it applies to lower income consumers and /or those in financial hardship.	Deposit accounts, direct investments, home loans, credit cards, personal loans, building insurance and home insurance.
Treasury Committee, House of Commons, UK (2004)	Ability of individuals to access appropriate financial products and services	Affordable credit and savings for all and access of financial advice.
United Nations (2006)	A financial sector that provides 'access' to credit for all 'bankable' people and firms, to insurance for all insurable people and firms and to savings and payments, services for everyone. Inclusive finance does not require that everyone who is eligible use each of the services, but they should be able to choose to use them if desired.	Access to credit, insurance, savings, payment services.
Report of the Committee on Financial Inclusion in India (Chairman: C. Rangarajan) (2008)	The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost.	Access to financial services and timely and adequate credit.
World Bank (2008)	Broad access to financial services implies an absence of price and non-price barriers in the use of financial services: it is difficult to define and measure because access has many dimensions.	Access to financial services such as deposit, credit, payments, insurance.

Source: World Bank (2014). Global Financial Development Report 2014 [6].

II. Review of Literature

In the Indian context, several studies have been conducted on issues related to financial inclusion and exclusion. A review of selected recent studies are briefly presented in this section. Bhatia and Chatterjee (2010), in their study attempt to identify the extent of financial exclusion of the urban poor in the slums of Mumbai. The study was on a sample of 106 respondents selected randomly from four slums, having between 40 and 150 households. The study found that one third of the respondents had savings bank accounts [7]. Gunther (2017) in his study used data from a survey of 135,147 individuals and another 16,000 households across India before and after the introduction of the PMJDY to understand trends in financial inclusion. The surveys were conducted in four lowest income states in India during 2013-15. The analysis indicated that PMJDY had significantly increased likelihood of previously unbanked population owning an account [8].

Ranade (2017) attempted to draw attention to the potential of finetech and its impact on financial services. He discussed the role of information management and its potential use coupled with the Jan Dhan-Aadhar Mobile phones (JAM) infrastructure that can give a big push to financial inclusion [9]. Using household-level data by Ghosh (2017) investigates the impact of Mahatma Gandhi National Rural Employment Guarantee Scheme on financial inclusion. Exploiting the staggered timing of the roll-out of the programme across districts, while controlling for its non-random implementation, it is found that MGNREGS improves grater financial access [10]. Singh (2020) in his study on financial inclusion through MGNREGS was observed that out of 19 districts, seven districts registered an increase in the value of the financial index in the year 2019 compared to that in the year 2013. The empirical analysis for identifying the determinants of overall inclusion reveals that factors like households having active job card, utilization of fund, amount of labour cost and number of works have significant influence on financial inclusion [11]. From the forgoing literature, it is clear that the flagship programmes such as MGNREGA and PMJDY plays an important role in influencing financial inclusion.

III. Objectives of The Study

This study has been aimed with following objectives in mind:

1. To study the nature and extent of financial inclusion under MGNREGS in promoting financial inclusion in rural areas.
2. To examine the role of PMJDY in accelerate financial inclusion.
3. To examine the challenges to be faced by the country in implementation and strengthen the financial inclusion schemes.

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IV. Data Sources

The study is mainly based on secondary data and information, which have been collected from various sources. The data information and were obtained from Planning Commission, Economic Survey reports, journals, newspapers etc. The data and information about MGNREGS has been also used from its official websites of Government of India.

V. Approaches to Accelerate Financial Inclusion

Since Independence, several attempts have been made by Government of India towards financial inclusion of the poor and other disadvantage groups in India. Nationalisation of commercial banks in 1969 marks the beginning of the process of financial inclusion. India has adopted a number of initiatives include the cooperative movement, followed by priority sector lending, lead bank scheme, service area approach, creation of National Bank for Agriculture and Rural development (NABARD), introduction of regional rural banks/ local area banks, microfinance schemes, linking self-help groups (SHGs) to banks, kisan credit cards, provisioning of doorstep delivery of financial services through approved banking correspondents and so on to promote financial inclusion, MGNREGS and finally Pradhan Mantri Jan-Dhan Yojana. Among various initiatives, MGNREGS and PMJDY are major flagship financial inclusion programmes in India.

V. Flagship Programmes

V (a). Nature and Extent of Financial inclusion under Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS)

The Government of India, the Reserve Bank of India and NABARD have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. Among various initiatives, MGNREGS is the employment generation flagship programme. Enacted by legislation on 25 August 2005 and implemented first in February 2006, the programme guarantees a minimum 100 days of employment per financial year to each rural household seeking employment in India according to pre-decided wages. To provide greater financial inclusion, the Government of India in 2008 declared that wage payments, under MGNREGS be made through banks and post offices. Over the last eight years, MGNREGS's performance compares favourably with any other anti- poverty initiative that India has ever undertaken. In the context of acute distress and deprivation in many parts of the country, the MGNREGA is the first step towards realising the right to work, which is included in the legal framework of Indian constitution. The new law impels to take clear responsibility for providing a social safety net for every poor rural household. It addresses urgent and immediate issues of hunger and deprivation, since it is this lack of livelihood, lack of food security and endemic poverty that sends rural households into the downward spiral of destitution.

The objective of financial inclusion is to deliver banking services at an affordable cost to vast sections of the low-income groups through various programmes. In India the basic concept of financial inclusion is having a saving or a current account with any bank. Financial inclusion is the key to empowerment of rural households as they constitute nearly 70 percentage of the total Indian population. Financial Inclusion can help the down trodden to improve their financial condition and the standard of living. A majority of rural population, particularly the low income groups, continues to remains without bank account and excluded from the financial services. Through MGNREGS, there has also been an attempt for the largest financial inclusion of the poor by linking them with the banks or post offices and paying them the wages directly in these accounts. Ramakrishnappa and Krishne Gowda (2013) conclude that the MGNREGS has the potential to generate more employment opportunities for rural households and it helping in promoting financial inclusion [12].

To ensure timely payment, payment of wages is mandatorily done through the bank/post office beneficiary accounts. The number of new bank or post office accounts opened for wages under MGNREGA became a yardstick for measuring the success of this initiative. As on March 2016, nearly 11.61 crore bank/post office accounts of the poorest people have been opened for MGNREGA payments (Table 2). Across bank-wise analysis shows that 5.41 crore accounts opened up in commercial banks, followed by post offices (3.64 crore accounts), regional rural banks (2.03 crore accounts) and 0.53 accounts opened in post offices. Around 90 per cent of MGNREGS wage payments are made through this route, an unprecedented step in the direction of financial inclusion. These accounts have also encouraged thrift and saving among some of the poorest families. Wage payment through the workers' accounts has helped to reduce leakages in wage payment. As per the data of MGNREGS website, the scheme has generated more than 2,054 crore person-days of work at a total expenditure of over Rs.3.22 lakh crores in ten years of time span.

Table 2: Number of Bank Accounts opened under MGNREGS

Sl No	**Bank/Post Office**	**No. of Bank accounts opened** (Crores)
1	Commercial Banks	5.41
2	Regional Rural Banks	2.03
3	Cooperative Banks	0.53
4	Post Offices	3.64
	Total	11.61

Source: MIS reports (http://www.nrega.nic.in).

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The budget allocation for this scheme has consistently risen from year to year. Table 3 provides information about the grants allocated in the annual budgets for MGNREGS. The budget outlay for MGNREGS was about Rs. 11, 300 crores, Rs. 12,000 crores and Rs. 16,000 crores for the year 2006-07, 2007-08 and for 2008-09, respectively. However, steadily it has been raised to Rs. 39,100 crores for the year 2009-2010, which marks an increase of 144 per cent over 2008-09 budget estimates. During 2010-11, the budget allocation for the MGNREGS was Rs. 40,100 (Economic Survey, 2012-13).

During 2011-12 & 2012-13, the allocation of funds for MGNREGS has fixed to Rs. 32,000 crore. About Rs 33,000 crore has been allocated for MGNREGA in the 2013-14 budget. Around 34,699 crore rupees have been allocated for MGNREGS during 2015-16. In the Union Budget for 2016-17, the Finance Minister announced an allocation of Rs 38,500 crore for providing employment under MNREGS. In the last fiscal, the government had made a budgetary provision of Rs 34,699 crore for MGNREGs and promised to provide another Rs 5,000 crore based on the actual utilisation of funds by the states. Most of the media talked about what a big push this is for the rural employment and the rural poor. However, never in the history of India has a welfare programme of such scale been launched before. As the MGNREGA enters its tenth year, its statistics are staggering. A total amount of more than Rs. 3 lakh crore (for ten years) has been allocated for the welfare of rural households and it is good prosperity.

Table 3: Financial allocation for MGNREGS in India (2006-07 to 2016-17)

Year	**Financial allocation** (Rs. Crores)
2006-2007	11,300
2007-2008	12,000
2008-2009	39,100
2009-2010	40,100
2010-2011	31,000
2011-2012	40,000
2012-2013	33,000
2013-2014	33,000
2014-2015	34,000
2015-2016	34,699
2016-2017	38,500

Sources: Economic Survey Reports (http://indiabudget.nic.in/)

V (b). Role of PMJDY in Accelerate Financial Inclusion

The present government is also focusing on financial inclusion with various measures. Prime Minister Sri Narendra Modi announced a new scheme in his Independence Day speech on 15th Aug 2014 and called it as the National Mission on Financial Inclusion (NMFI) for weaker section and low income groups. An ambitious flagship program of financial inclusion scheme '*Prime Minister Jan Dhan Yojan (PMJDY)'* was launched by Prime Minister on August 28, 2014. The major objective was to benefit the Aam Aadmi or Common people of India with a lot of benefits for the Indian families. The main objective of the PMJDY is 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, that is, weaker sections and low income groups.

A few years ago in India, a bank account was a source of pride. In a way, while such a mind-set did help make it easier to convince people to open bank accounts, it also reflected poorly on our ability to provide easy access to banking to the vast majority of our population. The first step towards achieving financial inclusion had to begin with providing a bank account to a majority of our population. This was enabled through the Jan Dhan Yojana under which the government has opened over more than 30 crore accounts with almost 60 per cent being in rural areas. The PMJDY scheme has had a visible impact on the lives of those who were yet to benefit from the rapid rise of the country's financial services sector. The Table-4 provides the information about the progress of PMJDY with respect to bank account open and deposits in banks. The PMJDY has 32.48 crore beneficiaries and they were brought under the ambit of formal banking with the total balance in their accounts stands at Rs. 81,523 crore (as on August 2018). The scheme also offers a life cover of Rs.30,000 to each of its beneficiary.

Table 4: Progress of Pradhan Mantri Jan Dhan Yojana (as on August 2018)

Sl No	**Bank Name**	**Total Number of Beneficiaries**	**Deposits in Accounts (in Crore)**
1	Public Sector Banks	26.22	65171.96
2	Regional Rural Banks	5.26	14153.09
3	Private Sector Banks	1.00	2198.07
	Total	32.48	81523.12

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

VI. Issues and Challenges of Financial Inclusion

Financial inclusion approach has been important policy goals for economic growth. Financial inclusion has become central to Indian policymaking over the past few years and various attempts have been made to expand its scope. Existing literature shows that greater access to finance increases savings, reduces income inequality and poverty, increases employment, and improves overall well-being. Despite positive effects, the challenges to financial inclusion remain formidable. There is a long history of financial inclusion in India. It has traditionally been understood to mean opening new bank branches in rural and unbanked areas. The major challenges to accelerate financial inclusion in India are as follows:

Disadvantage and Low Income Groups: The delivery of financial services at affordable costs to vast sections of disadvantaged and low-income groups continues to remain a big challenge in our country. Due to the absence of savings,

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the poor have been living under financial duress for long. The unbanked population has been powerlessly dependent on informal channels of credit, like moneylenders, middlemen, relatives etc,. Majority of the poor households in India are depending on informal sources of credit and deal with moneylenders who charge exorbitant rates of interest. This is also one of their biggest worries.

Geographical spread of rural population: The primary reasons for poor financial inclusion in India are economic in nature. Majority of the Indian population living in rural area. The geographical spread of the rural customer makes it uneconomical for banks to set up branches close to them to serve them profitably. As a result, the majority of bank branches in India are concentrated in urban areas and large towns and last mile access remains a hurdle in regular use of banking services.

Illiteracy, Poverty and Cash transaction

In India, where nearly one-fourth of population is illiterate and below the poverty line, ensuring financial inclusion is a challenge. The poverty and illiteracy, vary widely between different States in India. Around 30 per cent of the Indian rural population living under poverty line and rural poverty can be attributed to lower farm income, lack of sustainable livelihood, lack of skills, under employment and unemployment. Majority of the poor households, who are not able to access the available financial services due to constraints of illiteracy. Thus, ensuring deposit operations in these accounts is a challenge. India remains among the most cash-intensive economies in the world, with a cash-to-GDP ratio of 12 per cent. Around 97 per cent of all transactions in the country are carried out in cash, which explains why India remains among nations with the lowest access to digital payments [13].

VII. FINDINGS AND POLICY IMPLICATIONS

Overall, it may be inferred that MGNREGA and PMJDY are well-intended and planned schemes aimed to supplement the income of poor and underprivileged class of rural population. The implementation of MGNREGS and PMJDY flagship programmes by Government of India are landmark step towards financial inclusion. The MGNREGS has accelerated the pace of financial inclusion in rural India, and accounts opened under the programme would also help in the direct cash benefit transfer scheme of the government. Currently, more than 95 per cent of the wage payments under MGNREGS are directly deposited in the account of beneficiaries. Payments of wages through bank accounts are safe guard of this scheme to avoid corruption and promote financial inclusion.

On the other hand, the PMJDY scheme has made its way into the Guinness World Records for opening the highest number of bank accounts in a small period time. The recently released World Bank Global Findex data show that 80 per cent of Indian adults now have a bank account, which is being celebrated as the success of the PMJDY. While the increase in the proportion of adults having bank accounts is indeed impressive (80% in 2017 from 53 per cent in 2014).

The success of the scheme was indeed fabulous, but still a lot of serious attempts are required in order to make financial inclusion program a success. Few policy implications which emerge from our analysis is given below.

1. The majority of accounts opened through this scheme is opened in public sector banks. Hence, there is a need that private sector banks come forward and involve in the activities of financial inclusion.
2. Financial inclusion is not just about opening bank accounts, but also about using these accounts and providing access to formal credit, especially among the country's marginalised and poorer sections. The government of India should develop financial literacy among the population, particularly in low income families through the advertisement in local languages, radio and television, print media, with local icons and artistes as brand ambassadors of the campaign, could help in building public confidence.
3. State Governments needs to concentrate more on creation of individual assets under MGNREGA with a strong livelihoods focus that directly benefits the vulnerable sections like Scheduled Castes, Scheduled Tribes, agricultural labourers and small farmers.

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