Economic Impact of PMJDY

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Abstract: On August 15, 2014, Prime Minister Narendra Modi announced the PMJDY scheme, a financial inclusion scheme for the masses. This scheme focusing on financial inclusion for households was a modified version of the earlier Swabhimaan scheme which focused on coverage of villages.

The scheme was launched in two phases and we are well into the second phase which concludes in August 2018. This paper tries to understand the reason for financial inclusion and its role in capital formation and how this role was played out by PMJDY.

Key words: growth accounting, capital formation, financial inclusion, PMJDY

1. Introduction

It is said that “a country is poor because it is poor.” This idea has come down from Ragnar Nurkse who pinpointed the problem of the vicious circle of poverty. Low level of saving reduces the scope for investment; low level of investment yields low income and thus the circle of poverty goes on indefinitely.

![Figure1. Circle of poverty](online, http://www.economicsdiscussion.net/poverty/3-major-causes-of-vicious-circle-of-poverty-with-diagram/4592)

Both these measures are interrelated as improvement in one directly influences growth in the other.

Growth accounting captures the essential factors for the improvement in a nation’s wealth as Total Factor Productivity. The growth rate at which India increases its GDP reflects the rate at which the life of its citizens improve yearly. The Social Contract ensures that inequality is held in check to improve the lot of citizens as a whole. As Rousseau outlined more than 2 centuries ago, humans organize and adopt governments through a social contract and governments need to administer against inequality for inclusive and secular growth to in part fulfillment of their end of this contract.

The growth potential for India is significant when measured from several perspectives. In terms of wealth, the inclusive Wealth index shows how much potential for capital accumulation exists relative to other countries in the list. Countries at the top of the list show diminishing returns on capital investment locally and depend on capital exports for strong returns. India has a lot of headroom to grow.

In terms of expectation, the Human Development index ranks India at 130. This implies that there is a very long way to go before the citizens of India can match the quality of life high ranking countries have. This can only be achieved by economic growth at a very high rate to lift National wealth.

The productivity equation at the center of this journey suggests India starts with advantages. Krugman states in his paper on Asian tigers:

“IT IS A TAUTOLOGY that economic expansion represents the sum of two sources of growth. On one side are increases in "inputs": growth in employment, in the education level of workers, and in the stock of physical capital (machines, buildings, roads, and so on). On the other side are increases in the output per unit of input; such increases may result from better management or better economic policy, but in the long run are primarily due to increases in knowledge.”

The basic idea of growth accounting is to give life to this formula by calculating explicit measures of both. The accounting can then tell us how much of
growth is due to each input—say, capital as opposed to labor—and how much is due to increased efficiency.”

His analysis of the growth of Singapore or the USSR in the 60s suggests that expansion in inputs such as labour force, education levels and input goods can alone produce a very high acceleration in growth of wealth. This is necessary as the productivity equation at show us that the fundamental relation in productivity measurement is the production function:

\[ Y = A F(K,N). \]

This function says that we get higher output for three reasons: because more people are working (higher N), because they have more equipment to work with (higher K), or because capital and labor are used more productively (higher A, a catchall category).

A common steady state reduction is\( \frac{d(Y/N)}{(Y/N)} = \frac{dA/A + 0.33 d(K/N)/(K/N). \) (one third of output is paid to capital in profits, depreciation, etc., and two-thirds to labor, figures common to many countries)

What this says is that output per worker can rise for two reasons: because total factor productivity A is increasing and because the amount of capital per worker, K/N, is increasing.

The total amount of capital available is an investment from external sources (FDI) or more commonly, the investible capital which is an outcome of national wealth. A wealthier nation has more money to invest back into improving tools, technology etc.

The important metric here is Output per worker \( (Y/N) which is tied to living standards. A worker makes more output with better quality for the same input as before and so makes more money improving living standards in a sustainable manner.

India is expected to see an explosion in the work force due a demographic dividend. To have a sustainable push towards improved living standards, there is an opportunity to improving the savings rate which is necessary for capital formation and factor growth.

The RBI report on indebtedness shows that the penetration of banking services in the country is increasing. Rural indebtedness is increasing at a rapid level reflecting the use of formal banking channels for credit. This implies an improvement in the lot of people as they become credit worthy and results in enhanced capacity to borrow, increased level of confidence of lenders in them, higher financing requirements & expectations of such workers and their greater awareness about availability of different sources of finance. A foundational driver of this behavior is the inclusion of the larger population into formal banking channels by means of a bank account. This is being driven to a large part by the PMJDY.

Post the Millennium development goals (upto 2015) announced by the world Bank, countries have adopted various financial inclusion initiatives on a war footing to address the problem of exclusion. A study by the ADB on financial inclusion in Asia shows that such policy measures had been adopted since 1950’s especially in China and India. However, its only post 2000 that active sustainable measures have been undertaken.

To give further impetus to the financial inclusion drive, the present government led by Prime Minister Modi launched the ambitious Pradhan Mantri Jan Dhan Yojana (loosely translated as wealth for the masses), taking off from where the erstwhile Swabhimaan program left off.

This PMJDY scheme readdresses the financial inclusion mission of providing access to banking, insurance and other allied financial services. On the inauguration day nearly 1.5 crore accounts were opened in the country earning this scheme a place in the Guinness book of world records.

**Review of Literature**

Much research about financial inclusion has already taken place and its need in ensuring growth. However, research on the PMJDY and its impact is still in the nascent stage. The success of the scheme depends on the extent to which the zero balance accounts are operable and the account holders become eligible for credit. Deposits need to increase in these accounts and credit dispersal needs to improve to make any scheme a profitable and successful one.

Starting from 2014 when the scheme was launched, Diveyesh Kumar (2014) studied financial inclusion in the light of PMJDY. The author advised constant review of the progress made.

Harpreet Kaur and Kawal Nain Singh (2015) suggested strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas using PMJDY.

Sonam Kumari Gupta (2015) analyzed the performance of PMJDY and found that, of the accounts opened at public sector banks and private sector banks only 28% were active.
Patnaik (2015) concluded that in Bhubaneshwar, awareness was low with regard to the scheme a more aggressive effort needs to be adopted.

Vinit Kumar (2015) felt that the scheme was a daring initiative on the part of the government and was of the opinion that this scheme had a good chance of fighting poverty, thus enabling inclusive growth.

Vinit Kumar and Dolly Singh (2015) opined that the PMJDY scheme was a panacea for financial untouchability.

Rajeshwari Shettar (2016) however cautioned against the perils non operable bank accounts under this scheme.

All the researchers have lauded the government efforts but have advised a wait and watch approach to evaluate the efficacy of this scheme.

Salient features of PMJDY

The scheme foresees universal access to banking facilities with at least one basic banking account for every household, financial literacy, access to credit, insurance, and pension facility. Also, the account holders would get RuPay Debit card having inbuilt accident insurance cover of ₹ 1 lakh.

The scheme is also aimed at cashless payment modes by ensuring the government benefits directly being transferred to the beneficiary account, in the process eliminating corruption and diversion of funds.

Complete Scheme details:

- Account can be opened in any bank branch or Business Correspondent (Bank Mitr) outlet. PMJDY accounts are being opened with Zero balance. However, if the account-holder wishes to get cheque book, he/she will have to fulfill minimum balance criteria.

- Interest on deposit.
- Accidental insurance cover of Rs. 1 lac
- No minimum balance required.
- The scheme provides life cover of Rs. 30,000/- payable on death of the beneficiary, subject to fulfillment of the eligibility condition.
- Easy Transfer of money across India
- Beneficiaries of Government Schemes will get Direct Benefit Transfer in these accounts.
- After satisfactory operation of the account for 6 months, an overdraft facility will be permitted
- Access to Pension, insurance products.

- Overdraft facility upto Rs.5000/- is available in only one account per household, preferably lady of the household.

The scheme was to be launched in two phases

<table>
<thead>
<tr>
<th>First phase</th>
<th>Second phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 2014-august 2015</td>
<td>August 2015-august 2018</td>
</tr>
<tr>
<td>Opening of basic no frills accounts</td>
<td>Micro insurance</td>
</tr>
<tr>
<td>Kisan credit card and RuPay debit card issued</td>
<td>Pension scheme like swalabhan for the unorganized sector</td>
</tr>
<tr>
<td>Direct transfer of all government benefits</td>
<td>Financial literacy at village level</td>
</tr>
</tbody>
</table>

Table 1 : PMJDY phase details

Source: www.pmjdy.gov.in

Comparison between the Swabhimaan and the PMJDY scheme

<table>
<thead>
<tr>
<th>Swabhimaan</th>
<th>PMJDY</th>
</tr>
</thead>
<tbody>
<tr>
<td>This was introduced in February 2011</td>
<td>Launched in August 2014 in two phases</td>
</tr>
<tr>
<td>Villages with population greater than 2000 covered; thus limited geographical coverage</td>
<td>Focus on household; Sub Service Area (SSA) for coverage of the whole country</td>
</tr>
<tr>
<td>Focused only rural areas</td>
<td>Focused on both rural and urban</td>
</tr>
<tr>
<td>Bank Mitr (Business Correspondent) was visiting on fixed days only</td>
<td>Fixed point Bank Mitr (Business Correspondent) in each SSA comprising of 1000-1500 households (3 to 4 villages on an average) to visit other villages in the SSA on fixed days</td>
</tr>
<tr>
<td>Offline accounts opening - Technology lock-in with the vendor</td>
<td>Only online accounts in CBS of the Bank</td>
</tr>
<tr>
<td>Focus on account opening and large number of accounts remained dormant</td>
<td>Account opening to be integrated with DBT, credit, insurance and pension</td>
</tr>
<tr>
<td>Inter-operability of accounts was not there</td>
<td>Inter-operability through RuPay Debit Card, AEPS etc.</td>
</tr>
<tr>
<td>No use of Mobile Banking</td>
<td>Mobile wallet and USSD based mobile banking to be utilized</td>
</tr>
<tr>
<td>Cumbersome KYC formalities</td>
<td>Simplified KYC/e-KYC in place as per RBI guidelines</td>
</tr>
<tr>
<td>No guidelines on the remuneration of the Bank Mitr (Business Correspondent)</td>
<td>Minimum remuneration of the Bank Mitr (Business Correspondent) to be ₹ 5000/- (Fixed + Variable)</td>
</tr>
</tbody>
</table>
generally with Corporate BCs who used to be least expensive to them

Monitoring left to banks
Financial Inclusion campaign in Mission Mode with structured monitoring mechanism at Centre, State and District level

Financial literacy had no focus
The rural branches of banks to have a dedicated Financial Literacy Cell

No active involvement of states / districts
State level & District level monitoring committees to be set up

Providing credit facilities
OD limit after satisfactory operations / credit history of 6 months

No grievance redressal mechanism
Grievance redressal at SLBC level in respective states

Source: M S Sriram, Inclusive India finance report 2015, pg 40

A look at the progress in financial inclusion under the PMJDY

The progress under PMJDY since its inception in August 2014 can be seen in Table 1

Table 1: Progress under PMJDY (all figures in million)

<table>
<thead>
<tr>
<th>Type of Bank</th>
<th>31.1.15</th>
<th>31-08-2015</th>
<th>29.06.16</th>
<th>25-01-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>rural</td>
<td>urban</td>
<td>rural</td>
<td>urban</td>
</tr>
<tr>
<td>Public Sector Bank</td>
<td>53.30</td>
<td>45.15</td>
<td>98.45</td>
<td>75.30</td>
</tr>
<tr>
<td>Rural Regional Bank</td>
<td>18.49</td>
<td>3.30</td>
<td>21.79</td>
<td>26.80</td>
</tr>
<tr>
<td>Private Banks</td>
<td>3.23</td>
<td>2.01</td>
<td>5.24</td>
<td>4.20</td>
</tr>
<tr>
<td>Total</td>
<td>81.00</td>
<td>50.46</td>
<td>131.64</td>
<td>107.30</td>
</tr>
</tbody>
</table>

Table 2: Account balances under PMJDY (All figures in Billion)

<table>
<thead>
<tr>
<th>Type of Bank</th>
<th>31.1.15</th>
<th>31-08-2015</th>
<th>29-06-2016</th>
<th>25-01-2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>rural</td>
<td>urban</td>
<td>rural</td>
<td>urban</td>
</tr>
<tr>
<td>Public Sector Bank</td>
<td>81.75</td>
<td>175.57</td>
<td>309.91</td>
<td>524.56</td>
</tr>
<tr>
<td>Rural Regional Bank</td>
<td>15.99</td>
<td>37.48</td>
<td>67.88</td>
<td>124.59</td>
</tr>
<tr>
<td>Private Banks</td>
<td>7.26</td>
<td>10.89</td>
<td>14.73</td>
<td>24.10</td>
</tr>
<tr>
<td>Total</td>
<td>105.00</td>
<td>223.94</td>
<td>392.53</td>
<td>673.25</td>
</tr>
</tbody>
</table>

Graph 1: Progress under PMJDY

Graph 2: Account balances under PMJDY

Table 1 and table 2 clearly show an increase both in the number of accounts opened and also the account balances under the PMJDY scheme. As per the RBI report on trends and progress in Banking for 2015-2016, the basic savings deposit accounts have risen from 73.5 million in March 2010 to 495.2 million in September 2016. Much is this is attributed to the push given by the PMJDY scheme. On the same note the account balances in these BSDA accounts have risen from Rs 55 billion to Rs 719 billion for the same period.

Conclusions

The growth in deposits due to PMJDY translates into capital formation when channeled as savings and investments. This in effect leads to economic growth.

Looking back at the steady state productivity equation

$$\frac{d(Y/N)}{Y/N} = \frac{dA}{A} + 0.33 \frac{d(K/N)}{K/N}.$$
The factor of capital available per worker is improving by at least the rate of increase in deposits assuming that the increase in investable resources are channeled as capital. In practice, a section of it is tucked away into NPA provisions etc leaving a smaller yet measurable increase of credit availability.

Hence the PMJDY scheme is having a direct factor impact in reviving economic growth in the country.

Acknowledgements

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