

# A Study of the Effectiveness of the Financial Inclusion with Special Reference to Jan Dhan Scheme and Schemes Launched after PMJDY Scheme in Uttar Pradesh State

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## Abstract

India is nation of 1.21 billion people having diverse traditions, culture, language and complex geography. Sometime the population is our strength and sometime it becomes problem for us as the resources are less and pressure is more. In the scenario of the above, easy access to sources of finance i.e., Financial Inclusion is believed to be an important tool to make the every individual financially capable and attached to the financial structure of the country. It is to be believed that banking services is an essential service, which must be available for all without any discrimination based on gender, age, area, and financial status for poverty alleviation and inclusive growth.

Financial inclusion or inclusive financing is the delivery of financial services, at affordable costs, to sections of disadvantaged and low-income segments of society. Following the recommendation of Khan Commission-2004, various reformative measures have been taken by Reserve Bank of India and Government of India to promote the extent of Financial Inclusion in India over the period of time. To achieve maximum financial inclusion, banks throughout the country implements their initiatives to achieve their targets for Financial Inclusion and have succeeded in doing so to a large extent. However, in some area the results are not up to the mark. It is also to be noted that even after inclusion of vast section of disadvantaged people, result of same is not up to the desired level. Still there are large section does not familiar and comfortable with the banking system because of complex procedure, and lack of support of banking staff. The credit-deposit ratio is far below the national benchmark. Efforts have been made to provide financial services to each and every citizen of the country and one of the most popular and recent initiative is Jan Dhan Yojna.

It has a CRISIL Inclusix score of 62.2 (2015) compared to the national score of 58 in the year of 2013 (Source: CRISIL Index). It clearly implies that immediate after launch of Jan Dhan Scheme position has improved. As per CRISIL data immediate after launch of the scheme 31.0 crore Jan Dhan Accounts has been opened nationwide. The present paper attempts to look into the progress of financial inclusion (Jan Dhan Yojna) in the Uttar Pradesh state. It further attempts to reveal the status of financial inclusion in Uttar Pradesh and achievements made so far.

**Keywords:** Financial Inclusion, Financial Structure, Inclusive growth, PMJDY

## Introduction

The size of the financially excluded population in India is 19% of total population according to the ASSOCHAM report (published on 24<sup>th</sup> July 2017) mainly due to lack of last mile connectivity. Lack access to formal financial services. – such as a bank account (saving and deposit account), access of loans, various insurance schemes, a safe place to keep savings and a secure and efficient means to receive social benefit payments through a formal banking system (Reference: ASSOCHAM Report). However Reserve Bank of India, Government of India and bankers has made various efforts towards achieving 100% financial inclusion and also

achieved tremendous growth over the period of time (unbanked population has been decreased from 60% to 19 % in 5 years.)

Some of the major efforts made in the last five decades include - nationalization of banks, building up of robust branch network of scheduled commercial banks, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, lead bank scheme, formation of self-help groups, permitting BCs/BFs to be appointed by banks to provide door step delivery of banking services, zero balance BSBD and Jan Dhan accounts etc. The fundamental objective of all these initiatives is to reach the large sections of the hitherto financially excluded Indian population. In response to the initiatives put in by Govt. of India and RBI, CRISIL Inclusix score, for India, rose from 35.4 in 2009 to 42.8 in 2013 (up by 7.4) and 62.2 in 2015 (up by 20.0). In Uttar Pradesh, however, the situation is still grim in spite of the various initiatives put up by both the govt. and the bankers' community in the state. The present study is an attempt to look into the various strategies that banks in the state have employed to reach the disadvantaged set of population in the State and to briefly analyse the progress made so far.

#### **Review of Literature**

In India, "Access to Finance is not enough" published in October 05<sup>th</sup>, 2016 has defines that as Indian middle class grows, so does the need for financial literacy. Yet in the many regions in the India, traditional method of teaching people how to handle money are met with shrug. The article itself implies that financial literacy play important role to achieve the desired level of Financial Inclusion. It created among the people easy access to finance by all segments of the society. In 2012, The Reserve Bank of India advised banks to hold "financial literacy camps" at least once in a month. Finance can also play a positive role in poverty reduction. A well-developed financial system accessible to all reduces information and transaction costs, influence saving rates, investment decisions, technological innovation, and long-run growth rates. Financial Inclusion is a Key enabler to reducing poverty and boosting prosperity. Chhabra and Keyle, World Bank. "An overview of Bank's role in Financial Inclusion" 2017. Financial Inclusion emerging as a new paradigm of economic growth that plays major role in driving away the poverty from the country. "Role of Banks in Financial Inclusion in India." June 201. Joseph and Vargheses (2015) in their research published in 2015 " Effect of Financial Inclusion on the development of Indian Economy" has analyzed the effect of Financial Inclusion on Indian Economy by Bank growth rate in terms of bank branches usage of Debit Cards credit cards, opening of accounts in the banks, and availing the credit facility from the financial institution. They observed that the usage of Debit cards increased tremendously, and opening of accounts has been increased during the study period, which clearly defines the right path of financial inclusion.

#### **Objectives of the Study**

This study has been aimed with following objectives in mind:

1. To briefly examine the financial inclusion initiatives (Jan Dhan Yojna, and other various schemes) taken by the banking fraternity, Govt of India and reserve Bank of India in Uttar Pradesh state.
2. To evaluate the progress and current status of Financial Inclusion in Uttar Pradesh state.

#### **Research Methodology**

The data for the present study has been collected primarily from secondary sources. The secondary data was obtained from reports, journals, RBI publications, ASSOCHAM Report, State Level Banker's Committee Reports, Census 2011, Economic Surveys and websites.

#### **Uttar Pradesh demography**

Uttar Pradesh is a state in northern India. Abbreviated as UP, it is the most populous state in the Republic of India as well as the most populous country subdivision in the world. The densely populated state, located in the northern region of the Indian subcontinent, has over 200 million inhabitants. It was created on 1 April 1937 as the United Provinces during British rule, and was renamed Uttar Pradesh in 1950. The state is divided into 18 divisions and 75 districts with the capital being Lucknow. The main ethnic group is the Hindavi people, forming the demographic plurality. On 9 November 2000, a new state, Uttarakhand, was carved out from the state's Himalayan hill region. The two major rivers of the state, the Ganges and Yamuna, join at Allahabad and then flow as the Ganges further east. Hindi is the most widely spoken language and is also the official language of the state.

The state is bordered by Rajasthan to the west, Haryana, Himachal Pradesh and Delhi to the northwest, Uttarakhand and Nepal to the north, Bihar to the east, Madhya Pradesh to the south, and touches the states of Jharkhand and Chhattisgarh to the southeast. It covers 243,290 square kilometres (93,933 sq mi), equal to 7.33% of the total area of India, and is the fourth-largest Indian state by area. It is the fourth-largest Indian state by economy, with an estimated gross state domestic product of 14.89 lakh crore.

Uttar Pradesh has a large population and a high population growth rate. From 1991 to 2001 its population increased by over 26%. Uttar Pradesh is the most populous state in India, with 199,581,477 people on 1 March 2011. The state contributes 16.16% of India's population. The population density is 828 people per square kilometre, making it one of the most densely populated states in the country.

The sex ratio in 2011, at 908 women to 1000 men, was lower than the national figure of 933. The state's 2001–2011 decennial growth rate (including Uttarakhand) was 20.09%, higher than the national rate of 17.64%. Uttar Pradesh has a large number of people living below the poverty line. Estimates released by the Planning Commission for the year 2009–10 revealed that Uttar Pradesh had 59 million

people below the poverty line, the most for any state in India.

As per 2011 census, Uttar Pradesh, the most populous state in India, is home to the highest numbers of both Hindus and Muslims. By religion, the population in 2011 was Hindus 79.73%, Muslims 19.26%, Sikhs 0.32%, Christians 0.18%, Jains 0.11%, Buddhists 0.10%, and Others 0.30%. The literacy rate of the state at the 2011 census was 67.7%, which was below the national average of 74%. The literacy rate for men is 79% and for women 59%. In 2001 the literacy rate in Uttar Pradesh stood at 56.27% overall, 67% for men and 43% for women.

Hindi is the official language of Uttar Pradesh and is spoken by the majority of the population (91.32%), although different regions have their own dialects. Other major dialects of Hindi-Urdu include Awadhi spoken in the Awadh region of eastern Uttar Pradesh, Bhojpuri spoken in the Bhojpuri region of eastern Uttar Pradesh, and Braj Bhasha spoken in the Braj region western Uttar Pradesh. Urdu is given the status of a second official language.

#### **Financial Inclusion Programme in Phases (On Nation Level)**

Financial Inclusion Plan is the RBI designed financial inclusion measures to be implemented by commercial banks to provide banking services in unbanked villages. As part of the programme, all public sector and private sector banks have to prepare a three-year plan to extend their services in the identified unbanked areas.

#### **The FIP was implemented in Two Phases – 2010-2013 and 2013-2016**

The FIP broadly include self-set targets in respect of rural brick and mortar branches opened; BCs (Business Correspondents) employed; coverage of unbanked villages with a population above 2,000 as also other unbanked villages with population below 2,000 through branches; BCs and other modes; no-frills accounts opened, including through BC-ICT (Business Correspondent using Information and Communication Technology); KCCs (Kisan Credit Cards) and GCCs (General Credit Cards) issued; and other specific products designed by them to cater to the financially excluded segments.

Thus under FIP, banks can provide its services in any selected mode including opening of a branch, business correspondents etc.

#### **Phase I**

During Phase I, 74,414 unbanked villages with population more than 2,000 were identified and allotted to various banks through SLBCs (State Level Bank Committees) for coverage through various modes, that is, branches, BCs or other modes such as ATMs and satellite branches, etc.

#### **Achievements under Phase I of FIP**

With the completion of the first phase, a large banking network has been created and a large number of bank accounts have also been opened.

During the first phase, nearly 74,000 villages with population more than 2,000 were provided with a banking outlet. All these unbanked villages have been covered by opening banking outlets comprising 2,493

branches, 69,589 BCs and 2,332 through other modes.

After completion of the first FIP period, it was realized that although a large banking network had been created along with the opening of large number of bank accounts, simply creating the banking infrastructure and opening banking accounts would not fulfill the objectives of achieving meaningful financial inclusion. As an improved governance measure, with an underlying objective of ensuring involvement of all stakeholders in the Financial Inclusion efforts and in order to ensure uniformity in the reporting structure under the Financial Inclusion Plan, banks were advised to ensure that their FIPs are disaggregated and that they percolate down up to the branch level.

#### **Second Phase of FIP**

In the second phase, the remaining unbanked villages which in number is close to 4,90,000, are identified. Most of these villages have a population of less than 2000 people. These villages are allocated to banks, for opening of banking outlets by March 2016.

Similarly, the second phase also tries to improve the performance of the first phase by ensuring that the newly opened accounts will remain active. For this more branch level participation is sought by banks. For this, banks were advised that the FIPs prepared by them are disaggregated and percolate down to the branch level so as to ensure the involvement of all the stakeholders in FI efforts. The focus under the new plan is now more on the volume of transactions in the large number of accounts opened.

As per the progress reports received from SLBCs, banks had opened banking outlets in 1,83,993 unbanked villages by March 2014, comprising 7,761 branches, 163,187 BCs and 13,045 through other modes. The Reserve Bank is closely monitoring the progress made by the banks under the roadmap.

#### **Financial Inclusion progress [Uttar Pradesh]**

#### **Bank branches, PMJDY ([Pradhan Mantri Jan Dhan Yojna])**

As per the progress reports received from SLBCs, bankers meet for the Quarter December-2017, there are total number of branches 18409 including nationalized banks, cooperative banks, rural banks, and private banks position as on 31.12.2017 which significantly improves over the year. Under PMJDY (Pradhan Mantri Jan Dhan Yojna) scheme, large number of accounts have been opened and issued RUPAY debit cards. As per the SLBC report total 4,69,31,641 accounts have been opened out of which 79.14 % have been AADHAAR Seeded. Out of 4,69,31,641 accounts 2,80,01,855 (approximately 59%) accounts are rural people accounts. Total 1069 active AADHAAR enrolment centre is working in Uttar Pradesh as on 2017. Total 11142 transactions have been digitally transacted and CD ratio is 60.80 as a whole. As per the census report (2011) total 77.73% people resides in rural areas. The data clearly shows that in three years approximately 20 % people covered under PMJDY scheme and benefited with

RUPAY debit card. AADHAAR seeding in the account helps in transaction transparency and helps in direct benefit transfer.

**PMJJBY and PMSBY [Pradhan Mantri Jeevan Jyoti Beema Yojna and Pradhan Mantri Jeevan Suraksha Beema Yojna]**

Government of India has launched two schemes related to financial inclusion immediately after launching of JAN Dhan Yojna named as Pradhan Mantri Jeevan Jyoti Yojna and Pradhan Mantri Suraksha Beema Yojna. Under the said scheme, as per the progress report published from SLBC Uttar Pradesh total 1,40,98,577 accounts have been enrolled under the scheme. It is also to be noted that generally in these types of social schemes, progress is not up to the mark, and even after enrolment effective execution has not been placed. In the case of above both social security schemes, there is room for improvement. It is to be noted that total 22986 account holders has claimed for insurance amount and has been paid to the claimers by insurance company with the help of bankers. All the above data clearly signifies the success of the financial inclusion but still large number of population is not enrolled under the scheme.

**APY (Atal Pension Yojna)**

In the country with as large a workforce as India, Labour welfare is a very important issue that need adequate attention. Total workforce of India is 47 crores, close to 85% out of which 39 crores are working in unorganized sector. Total workforce working in unorganized sector in Uttar Pradesh is 7.93 crores. Workers in the unorganized sector have either formal or informal employment, but no social security benefits. After successful execution of the above schemes, Government of India has launched Social security scheme for the working people specially working in unorganized sector. GOI has launched Atal Pension Yojna and appeal the denizens to open the account for better and secured future. As per the data received from SLBC (Uttar Pradesh unit) total 41, 91,884 people in 2017 enrolled under APY compare to 24,40,080 in 2016. Approximately only 3.48% workforce covered under Social security scheme in Uttar Pradesh. Data implies that even after appeal of government and bankers efforts large number of workforce are still not covered under said scheme.

**KCC (Kisan Credit Card)**

Kisan credit card is one of important tool to achieve inclusive growth, give the credit facility to our farmers. In the above scheme, there are total 3271838 accounts amounting Rs. 3549468.00 has been renewed and total fresh 889001 accounts amounting Rs. 1525433.00 has been opened. As a whole total 14400357 accounts opened amounting Rs. 9868546.00. The renewal data clearly implies that limits are repaid by the farmers and create loyalty and belief in the banking system resultant more KCC accounts had been opened over the time.

**SHG (Self Help Group)**

SHG (Self Help Group) are the registered or unregistered group comprising the same set of people based on their social and economic status. They comes in existence voluntarily for the purpose of small

savings and mutual lending in case of emergency need. They mutually lend the money on the basis of social pressure and mutual relation. Social pressure is socially acceptable in the formed group. Role of banks in SHG to sponsor them. As per report of SLBC (Uttar Pradesh unit) total 4,29,177 groups are formed all over the villages of Uttar Pradesh which are sponsored by various banks, Nabard and financial institution.

**Major Findings**

1. CRISIL Inclusix score of the state is 62.5 compared to the national score of 58.0
2. Up to the end of December 2017, total number of bank branches has been increased and reached to 18409. It implies that there are total 9 branches on every 100000 population.
3. Approximately 20% of total population are covered under Pradhan Mantri Jan Dhan yojna scheme and benefited with Insurance scheme attached to Rupay Debit Card.
4. Approximately 10% of rural people are benefited with PMJDY scheme and social security schemes attached to RUPAY debit card.
5. Approximately 6% people are covered under Social security schemes like PMJJSY and PMSBY.
6. Approximately 3.48% workforce covered under Social security scheme (Atal Pension Yojna) in Uttar Pradesh
7. Banks have sanctioned a total number of 14400357 KCCs in Uttar Pradesh State, against which Rs. 9868546.00 KCCs have been disbursed. Total 3271838 accounts amounting Rs. 3549468.00 has been renewed shows recovery of loans and belief in banking system of our farmers.

**Conclusion**

The study concluded that though the banks in the state are complying with RBI norms in terms of opening new bank branches, offering no frills account, Kisan credit card, simplifying KYC norms, sponsoring SHG opening Atal Pension yojna and facilitate the people with various social security schemes but still a lot of effort is required to be put in for financial inclusion progress specially in case of Atal Pension Yojna and PMJJY, and PMSBY. A lot has already been done but a lot is yet to be achieved, so bankers need to keep reforming their plans and ensure that the poor are not left to the clutches of informal sources of finance. Banks in the state need to open more branches within rural areas and creating more awareness about banking services among rural people by telling them about the benefits of the banking services. Financial inclusion requires efforts on the parts of three parties- RBI, all the banks as well as general public for its better progress.

***“The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.”***

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