UNION BUDGET 2015-16: Paradigm Shift From FINANCIAL INCLUSION to SOCIAL SECURITY (JAN DHAN to JAN SURAKSHA)

Dr. Priti Bakhshi

Asst. Professor - Finance

Jaipuria Institute of Management

B 110, Basant Vihar, Near Shanti Niketan Colony, Indore - 452010

ABSTRACT: *It is often believed that Growth and Sustainable Development cannot go hand in hand and that is the biggest challenge for any Finance Minister while making the Financial Budget for the Economy. Through this paper, an attempt is made to suggest that through Social Inclusion along with social security an Economy can achieve desired growth along with Sustainability. The study reveals that Financial Inclusion cannot be the fundamental right for underprivileged as it has some cost but at the same time it can be made a key driver to earn, grow and sustain. After studying various pros and cons of Social Inclusion and analysing the Union Budget 2015- 16 an attempt is made to suggest that this is the first budget ever in which there were plans for converting cons of Financial Inclusion into opportunities so as to accelerate the growth resulting into social sustainability i.e. reducing poverty and enhancing prosperity*.

KEY WORDS: Financial Inclusion, JAM Trinity, Micro Finance, Poverty & Prosperity, Social Security, Union Budget

I. INTRODUCTION:

It is often believed that Growth and Sustainable Development cannot go hand in hand and that is the biggest challenge for any Finance Minister while making the Financial Budget for the Economy.

The ILO declaration of 1944 proclaimed that **'Poverty anywhere is a threat to prosperity everywhere.'**

"Overcoming poverty is not a gesture of charity. It is an act of justice. It is the protection of a fundamental human right, the right to dignity and a decent life. While poverty persists, there is no true freedom."- **Nelson Mandela**

Most Economists considers inclusion[1] as the driver of economic development that can play a vital role in driving away the poverty by providing financial services to low-income people.

II. SOME FACTS:

- **The World Bank database for the Global Financial Inclusion (Global Findex**) provides survey based data as part of the annual Gallup World Poll. The study for India reveals that total account penetration is reported to be 35 per cent out of which 43.7 per cent is for men and 26.5 per cent is for women.

- **The IMF Financial Access Survey (FAS)** conducted in 2009 and published in 2012**,** reveals substantial gaps on account of financial status in India that needs to be overcome so as to improve its position.

- **The all-India CRISIL Inclusix** score of 42.8 on a scale of 100, reflects under-penetration of formal banking in India. The index measured the financial inclusion in each of the 638 districts of India.

- **NSSO 59th Round Survey** shows that 51.4% of farmer households are financially excluded from both formal/ informal sources; Of the total farmer households, only 27% access formal sources of credit; one third of this group also borrowed from non-formal sources; Overall, 73% of farmer households have no access to formal sources of credit.

- As per **Government of India Population Census 2011** only 58.7% of households are availing banking facilities in India i.e. 41.3% household do not have access to banking services.

III. INITIATIVES SO FAR:

- **BANKS:** The initiatives taken so far to enhance the inclusion through Banks are Mandated Core Banking; freedom to open branches in Tier 2 to Tier 6 centres; Deregulated Interest rates on advances; No-frills Accounts; Overdraft facilities in saving Account; Simplification of Know Your Customer (KYC) Norms and Guidelines; Business Correspondents (BCs) and Business Facilitators (BFs) Model; SHG Bank-Linkage Programme; Financial Literacy Program; Use and promotion of Information and Communication Technology (ICT) in Banking for Smart Card, Mobile Based, Micro ATM, Mobile ATM etc; Licensing of New Banks like Bandhan Bank; Bank Credit to MSME; Each household to have atleast one bank account; Lending to weaker sections at concessional rates and many more.

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[1] Financial inclusion include micro credit, no- frills bank accounts, saving products, pension for seniors, self help group, etc. either with branchless banking or through any other mode that may include Joint Liability Groups, Micro Finance Institutions, Banks, Regional Rural Banks, Cooperative Society etc.

- **ADHAR (UID):** Many people in India do not have proper identity / residence proof of driving license, Pan card, credit cards, Voter's ID card etc. so they face problems in accessing public services like opening the bank account, applying for bank loan etc. The project ADHAR (Unique Identification Number) serve the Know Your Customer (KYC) guidelines for the people who do not have Identity proof. Thus, UID can act as a tool to drive financial inclusion for the rural an poor people.

- **SWAVALAMBAN** is a pension scheme launched on September 26,2010 for workers of unorganized sector to provide them a good life post retirement. Under this scheme the worker of unorganized sector who contribute a sum of Rs. 1000 to Rs. 12000 per year in their pension account during financial year 2010-2011, the central government has also contributed a sum of Rs. 1000 per annum. Swavalamban scheme has totalling to 40 lakhs subscribers by March 2014.

- **SWABHIMAN** is the Financial Inclusion Campaign launched in February 2011 for providing banking facilities to over 74,000 habitations having a population of 2,000 and above. Facilities are provided by engaging over 62,000 business correspondent agents (BCAs) and opening branches. About 3.16 crore Financial Inclusion accounts have been opened till March, 2012.

- **PFRDA (Pension Fund Regulatory & Development Authority) :** Government has set a regulatory body for the pension sector on August 23, 2003. PFRDA's effort are an important milestone in the development of the sustainable & efficient voluntary defined contributor based pension system of India. PFRDA also works for financial literacy and awareness campaigns as a part of its strategy to protect the interest of subscribers under Swavalamban scheme.

- **PM Jan Dhan Yojna (PMJDY):** was the initiative to focus on covering households under inclusion as against the earlier plan on covering villages. It focuses on coverage of rural as well as urban areas. Earlier plan targeted only villages above 2000 population while under PMJDY whole country is to be covered by extending banking facilities in each Sub-Service area consisting of 1000 – 1500 households such that facility is available to all within a reasonable distance of about 5 Km. The objective of PMJDY is to reach 7.5 crores people in 6 lakhs villages with formal banking system and to help them gain understanding of financial services and equip them to take financial decision; Meeting life cycle need through savings, credit, remittance and insurance products.

IV. FACTORS AFFECTING ACCESS TO FINANCIAL SERVICES:

The mission of covering a population of 1.3 billion with financial services is enormous because it has both demand as well as supply side barriers apart from other issues.

- The main **Demand side barriers** are Low literacy levels, lack of awareness and/or knowledge/understanding of financial products; Irregular income; frequent micro-transactions; Lack of trust in formal banking institutions; cultural obstacles (e.g., gender and cultural values); etc.

- The main **Supply side barriers** are reaching not so attractive low density areas and low income populations for the provision of financial services; Regulation; Limited Service Providers; not of immediate benefit products and Services; Products only for middle age working population who are the potential customers and there are hardly any policies or schemes for the younger lot or the old people who have retired, as the banks do not see any business from them; Bank charges; Lack of Legal identity; high cost of operations; less volume & more number of clients; unsuitable products; etc.

V. **REASONS BEHIND FAILURE in Inclusion:** The pre-requisites for achieving the objective set for Financial Inclusion are Access, Affordability, Fair and transparent delivery along with creating boost in Demand and Supply Side. The main reasons behind not achieving the said objectives of Inclusion were:

- Clarity on the basic objective of microfinance
- Usefulness of microfinance in poverty reduction
- Less demand or no demand for social security cover such as Insurance, Pension etc
- Low penetration of Adhaar card
- No Incentives for Inclusion, and
- No Linkages between any schemes

VI. **MISSING ELEMENTS IN FINANCIAL INCLUSION**:

- Financial inclusion misplaced various aspects such as the demand and supply side issues; assessment of enabling environment; issues in penetration, barriers to financial inclusion, etc.

- Lack of appropriate financial products, including at the very least, savings products, emergency credit, payment products and entrepreneurial credit.

- Ease of access was missing mainly timely access; distance, pricing and terms & conditions; fairness & appropriateness of products

- Financial Inclusion was taken as compulsion rather than a business prospect and hence missed the probable business opportunities that can be utilized by tapping and targeting untapped and unorganized market.

- **Financial Inclusion in Urban Areas** was never the criteria but actually urban financial inclusion has vast scope for improvement. Migration from rural to urban centres is also accentuating the problem.

- **Infrastructure Development**:: For up-scaling financial inclusion, adequate infrastructure such as digital and physical connectivity, uninterrupted power supply etc are prerequisites which was never kept as the essential element of Inclusion.

- **Post-offices**: Post offices (POs) are closest to the rural people compared to bank branches. As on March 31, 2011, there are 1,54,866 post offices in India, of which 1,39,040 (89.8%) were in rural areas. No or very little efforts were made to ensure that Post Offices play a greater and more active role.

- **Insurance for Rural India:** Over 70% of total population resides in the rural areas of the country. However, insurance reaches less than 3% of the total population. Due to high competition and relatively high market saturation in the urban areas, rural areas provide ample business opportunities for insurance firms –both life and non-life but no importance or incentives were linked to the insurance for rural India.

VII. UNION BUDGET 2015-16:

Union Budget is most sensitive balancing act for giving some directions or road map to achieve a particular growth rather than be all. It is difficult to achieve or address all issues in Union Budget like growth, equity, stability and sustainability but Finance Minister – Mr. Arun Jaitley has addressed almost all the issues in Union Budget 2015-16 which were missing in almost all the Financial Inclusion initiatives.

The recent Union Budget 2015-16 has various policies / measure that will not only support the Financial Inclusion but will also result in Social security and Sustainability.

With regards to the lack of insurance like health, accidental or life, a proposal was made to create a universal social security system for all the people, specially for the poor and the under-privileged through:

- **Pradhan Mantri Suraksha Bima Yojna**: it will cover accidental death risk of Rs. 0.2 million at a premium of Rs. 12 per year.

- The **Atal Pension Yojana**, which will provide a defined pension depending on the contribution and its period. T o encourage people to join this scheme, the government will contribute 50 per cent of the beneficiaries' premium limited to Rs. 1,000 each year for five years, in the new accounts opened before 31 December 2015.

- **Pradhan Mantri Jeevan Jyoti Bima Yojana** will cover both natural and accidental death risk of Rs. 0.2 million at a premium of Rs. 330 per year or less than one rupee per day, for the age group 18-50.

- **Senior Citizen Welfare Fund** is proposed for appropriation of unclaimed deposits of about Rs. 30 billion in Public Provident Fund (PPF) and Rs. 60 billion in Employees' Provident Fund (EPF). The total amount will be transferred to a corpus which will be used to subsidize the premiums of vulnerable groups such as old age pensioners, below poverty line (BPL) card-holders, small & marginal farmers among others. A detailed scheme will be issued in March.

- Another proposal to provide Physical Aids and Assisted Living Devices for senior citizens, living below the poverty line was also made.

- An integrated education and livelihood scheme '**Nai Manzil'** will be launched this year to enable minority youth, without any formal school-leaving certificate, to obtain the same and find better employment.

- To create credit for the rural population with priority to SC&ST, and rejuvenate the micro-finance sector FM allocated a corpus of 20,000 crore and credit guarantee corpus of Rs 3,000 crore to create a **Micro Units Development Refinance Agency (MUDRA**) Bank through a **Pradhan Mantri Mudra Yojana**. The announcement to create a Micro Units Development Refinance Agency (Mudra) Bank is a major positive step on the microfinance and financial inclusion space. Since this is a move aimed at providing refinancing for small business enterprises, it addresses a huge gap in the current refinancing structure. Many MFIs don't finance small businesses and where they do, they do not get any refinancing.

- **MGNREGA** will get MGNREGA of Rs. 5,000 crore. It is highest allocation to this scheme. MGNREGA was the flagship scheme for rural job enhancement. The Finance Minister targeted the country's 70 per cent rural population with a slew of other measures, including the allocation of 79,526 crore for rural development activities, including MGNREGA.Education received 68,968 crore to which Finance Minister clubbed the Mid-Day Meal scheme, while health was allocated 33,152 crore. A large chunk of these were attributed to the "poor and disadvantaged", which means that these would impact rural India as would the 10,351-crore set aside for women and child development.

- FM set aside 1,500 crore for the **Deen Dayal Upadhyay Gramin Kaushal Yojana** to skill village youth under the government's National Skills Mission.

- Rs. 25,000 crore allocated for **Rural Infrastructure Development Bank**.

- FM also proposed allocation of Rs. 5,300 crore to support micro-irrigation, watershed development under the **Pradhan Mantri Krishi Sinchai Yojana**.

- **Postal Department** to utilise the services of its vast network for the proposed Payment Bank as Government proposes to utilise vast postal network with nearly 1.55 lakh points of presence across villages of the country. Postal department will bring the proposed **Payment Bank** venture successfully so that it can contribute in Pradhan Mantri Jan Dhan Yojana, The government has applied to RBI for a Payment Bank licence for the Postal Department. Payment Banks would be allowed payments and remittance services through various channels.

- **JAM Trinity** – **Jan Dhan, Aadhaar and Mobile** – will allow the transfer of benefits "in a leakage-proof, well-targeted and cashless manner". The Jam Trinity essentially means linking the Prime Minister's Jan Dhan Yojana with a citizen's Aadhaar identity and mobile number to transfer subsidies and benefits and resulting into inprovovement in quality of life.

VIII. CONCLUSION:

Many initiatives were taken before Union Budget 2015-16 to support Financial Inclusion but most of them has some barriers either on demand side or on supply side along with no incentives and linkages between the schemes. Current Union Budget has not only proposed the policies for Inclusion but has given a new shape to inclusion i.e. from Social Inclusion to Social Security (Jan Dhan to Jan Suraksha) along with linkages in the schemes through JAM Trinity.

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