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SAVING MOBILIZATION AND PMJDY IN INDIA

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ABSTRACT

Household saving is the largest part of domestic savings of India because half of the population belongs to middle class. It ensures that there is saving but it needs to be mobilized. Efforts that had been done by RBI, GOI,and NABARD,is not enough to break the obstacles, hindering savings to be linked to the economy. There is the need to broaden the participation of rural financial markets by proposing diverse financing mechanisms to ensure access to financial services with an emphasis on savings mobilization.This paper deals with the need of saving mobilization and constraint behind it.It also aims to highlight the recently launched program PMJDY which seems a new hope for rural people.

KEYWORDS: *PMJDY, Saving Mobilization, Zero Balance Account, Overdraft Facility.*

INTRODUCTION

Savings mobilization is very important and obligatory for individual and societal welfare. At the individual level, savings help household, smooth, consumption and finance, productive investments in human and business capital as well as give the guarantee for their unforeseen situations. At the macroeconomic level, savings rates are strongly predictive of investment and finally of future economic growth. In India 50 % population still depends on agriculture for their livelihood. And household saving consist of 72.64%(2012) of gross domestic saving in India. Policy makers ignore the voluntary household saving because of the assumption that these people are too poor to save and that which do acquire additional income spend the windfalls on consumption or ceremonial sprees. Financially excluded or poor people depend on moneylender even for their day-to-day needs and borrowing at very high rates and finally are caught in a debt trap. Moreover, rural poor suffer from financial impediments such as irregularity and uncertainty of work, seasonal income because of seasonal job and work related migration.

There is a need to enlarge the participation of rural financial markets by proposing diverse financing mechanisms to ensure access to financial services with an emphasis on savings mobilization. Saving mobilization is the key to development activity as well as permitting the expansion of the financial institutions.

So as per the most prominent theory of Keynes that consumption determined by income and simultaneously residual method depicts to income, as the prominent determine factor for saving also. In India where 68.31% population lives in rural area Government has launched innumerable schemes, programs such as employment generating wage earning and capital building for self-employment, some of them are direct cash transfer for the upliftment of this mass. So for the income generation, a lot of efforts have been made by government. Why still saving is negligible from poor? Are they too poor to save and spend all the income for present consumption? How PMJDY can complement with the former efforts for saving mobilization.

LITERATURE REVIEW

Samuel Wangwe and Prosper Charle (2004) examines innovative approaches to domestic resource mobilization in selected Least Developed Countries. He has thrown light on different area of domestic resource mobilization. Micro financing, providing access to clients, building the regulatory and incentive framework, provide financing are main remedies. Unsustainable fiscal deficits, debt service charges and declining official development assistance, are main challenges for domestic resource mobilization in LDCs. So by adopting suitable fiscal measures, this problem can be removed.

Saving Mobilization Strategy (August 2009)proposes to provide a broad framework for the promotion of savings mobilization to build assets, create wealth for rural working poor for sustainable development. The strategy is geared at achieving the following objectives:

- Asset building, income generation, wealth creation and socio-economic development.
- Encourage savings led credit by SHGs and developing cooperatives.
- Encourage internal lending among groups where there are potential to local based financial intermediaries.
- Encourage SHG bank linkage model to increase outreach to financial services.

The target group consists of the agricultural cooperatives; financial service cooperatives; self help groups; farmer organization; community based organization involved in agricultural related activities; land agrarian reform beneficiaries; women, youth and people with disability.

Karnal, Ratan and **Jonathan Zinman(march 2014)** focused on five sets of constraints that may hinder the adoption and effective usage of savings products and services by the poor: transaction costs, lack of trust and regulatory barriers, information and knowledge gaps, social constraints and behavioral biases with empirical evidence and recent field experiments in some selected developing countries. He also applied some treatment that can increase saving mobilization.

Patnaik,Satpathy and Avinash Chandra Supkar see PMJDY as a new direction for mainstreaming the financially excluded mass. PMJDY is a major catalyst in achieving the goal of inclusive growth as the initial figures are encouraging and as more and more people get in the ambit of formal institutions they will be in a position to contribute more positively in the economic development of the country. When people save money ultimately they make for themselves the availability of surplus which can be utilized by the banks to channelize it to the needy sectors. Also by opening a bank account people can earn risk free returns and can also enjoy the benefits of other linked financial services which they were not able to access.

Study conducted by**Bihari (2011)** analysed, financial inclusion Plans, eleventh five year plan and banks performance as well as no frill account. This study suggested financial literacy and quality improvement in no frill account can achieve financial inclusion plan growth.

SupravatBagli (2012), has shown that, the level of financial inclusion of the states in India have a low mean and high disparity. This study has revealed a strong positive association between the human development and the financial inclusion of the states in India. The mass financial literacy and awareness among the marginalized sections of people are absolutely necessary to achieve financial inclusion. Side by Side with this, financial institutions will have to be socially responsible as well as approachable to achieve complete financial inclusion.

Keshavamurty (2014) gives his view of PMJDY has been conceived as national mission of financial inclusion with the objective of covering all households in the country with banking facilities and having a bank account of each household. Financial Inclusion of inclusive financing is the delivery of financial services at affordable cost to each house hold at costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. The major shift this time is in this financial inclusion effort of the Government is that households are being targeted instead of villages as targeted earlier.

Barhate G.H. and Jagtap V.R. (2014) focused on Financial Inclusion in India and tried to find out the implications threats of PradhanMantri Jan DhanYogna and concluded that in rural area network of ATM is less, so people are not well verged with the use of ATM and there is no clarity in this scheme that account holders would get Rs. 1 lakh accidental insurance coverage and it is also not clear about the bill of insurance premium and cost to keep account.

RajanikantaKhuntia, (2014) in this paper considered that even after 68 years of independence, around ten crore households are not connected with the banks in order to reduce the degree of " financial untouchably" the new government has come up with a big bang action plan which is popularly known as " PradhanMantrijan- DhanYogna". It is a mega financial inclusion plan with the objective of covering all households in the country with banking facilities along poverty effectively, and to empower the last man in the last row in Indian economy.

Jubair.T (2014) the objective of the research paper is to critically evaluate the benefits of self service banking machines in India. And the study also aims at comparing the services and costs associated with the use of these machines established in Indian Banks and he concluded that self service banking machines has made a paradigm shift in Indian Banking industry. Number of self service banking kiosks such as ATM, CDM etc has been installed and banks and financial institutions are taking advantage of these machines.

HemantKumatWatts(2015), in his paper, analyzed the present scenario of financial inclusion, and how PMJDY will complement with it. How much it contributes to mobilization of saving for effective utilization, social sustainable livelihood. His study also say at what rate PradhanMantri Jan DhanYojna contribute to long run goals of cashless economy, and Digital India Vision. He also aims to analyze the challenges and opportunities faced by unbanked to get a basic financial service. He has also thrown light on the flaws in this new program and its implication with the suggestion to make it more effective.

The present study is the expansion of the existing study on PMJDY. Here I further analyzed the progress, issues, challenges and opportunities related to this ambiguous program.

OBJECTIVES

- To highlight the constraints in saving mobilization in India.
- To focus on the need for saving mobilization.
- To know the performance of PMJDY scheme since it has been launched.

For the first objective the reason for which saving mobilization is too much necessary for any developing country is explored below:

WHY SAVING MOBILIZATION IS IMPORTANT?

Here, the table given below, shows why saving mobilization is important for a developing country. It is shown here that, one saving technology offered only a secure place to put money, but did not provide any commitment to make deposits or limit withdrawals. Thus, the product provided only a very soft form of commitment through labeling (a form of mental accounting).Two other products offered stronger commitment through earmarking (the money saved could only be used for the prespecified purpose).

Key statistics from studies evaluating savings impact in the developing world

Study,Country	Treatment	Measurement Time-frame	Take –up of savings Account (Share of the entire treatment group)	Active Usage of Savings Account (Share of the entire treatment group)	Increase in Saving Balance(% or level increase over the comparison group)	Increase in Outcomes(%increase over the comparison group)
Dupas& Robinson (2013a),Kenya	Reducing opening fees for a simple bank savings account	6 months	87%	41%(2 or more transactions)	9.36 Ksh increase in daily average bank savings	37% increase in daily private expenditure,38-56% increase in average daily business investment.
Cole *et al.* (2012),Kenya	Varying subsidies to open simple bank savings accounts	2 years	Low incentive:3.5 %; Medium incentive:8.9 %; High Incentive:12. 7%			

Prina(2013), Nepal	Reducing opening fees and reducing distance to transaction point for a simple bank savings account	1 year	84%	80%(2 or more deposits)	25% increase in monetary assets	20%increase in educational expenditures;15% increase on fish and meat expenditures;smaller reduction in weekly income when hit by a health shock
Schaner(2013c),kenya	Reduce issuing fee for an ATM debit card(reduces withdrawl fee by half)	6 months	Savings account 100%(by design);ATM card:>86%	22.7%(1 or more transactions)		
Schaner(2013a),Kenya	Varying interest rate on simple bank savings accounts(long-run impacts)	6months: 3 years	High-interest rate:49.2%; Low-interest rates:31.4%	High-interest rate:14.7%(1 or more transactions over first 6 months ; 11.7%(1 or more transactions 24-36 months after account opening)		$15 in higher monthly income for individual accounts offered the high interest rate
Karlan&Zinman(2013), Philippines	Varying interes rates and intra –household ownership of commitment savings accounts	20 months	23%	9%(1 or more transactions 24-36 months after account opening		
Ashraf etal.(2006b),Philippines	Door –to –door deposit collection service	15 Months	28%	14.2%(1 or more deposit**)**	40% increase in savings stock	
Chin et al.(2011),U.S.-Mexico	Assistance to undocumented migrant workers to obtain an I.D. card required to open a bank savings account	5 Months	ID Card; 87% Saving Account;43%		9% point increase in total savings as a share of income	Those in the treatment group who lacked control over how remittances were spent increase their income by $575(14%)
Seshan and Yang(2013), Qatar-India	5 hour financial literacy workshop	1 year			72.4% increase in migrants savings	

Ashraf et al.(2010),Philippines	Goal based commitment savings account	1years; 2.5 years	28%			0.14 SD increase on an index of decision-making power at baseline, increase in expenditure on female-oriented consumer durables by 1457Ph pesos
Ashraf et al.(2011)U. S.-EL Salvador	Saving accounts with varying degrees of control over remittances for EL Salvadorian emigrants in the U.S.	6 Months	Recipients account:22.9% Joint account: 28.3% Joint and migrant account: 39.6%		For participants who had demand for control of funds, 244% increase in total savings for the joint and migrant account treatment	
Brune et al.(2013), Malawi	Commitment and ordinary savings accounts tied to tobacco crop sales	1.5 Years	Ordinary account: 18%;commitment account and ordinary account:21%	Ordinary account: 18%;commitment account and ordinary account: 21%	Ordinary account:573% increase in deposits in project account ; Commitment account and ordinary account :503% increase in deposits in project accounts	Among those offered the Commitment account and the ordinary account:7.7% in crease in land cultivation; 17.1% increase in agriculture inputs; 20.1% increase in agriculture output; 13.5% increase in household expenditures after the next harvest.

Dupas&Robinson (2013b), Kenya	Health-oriented informal savings devices with varying levels and types of commitment.	1 year		Safe Box:71 %; Lock Box:66 %; Health pot:72% ; Health Savings Account: 97%		66–75% increase in preventative health investments for Safe Box Treatment; 128–138% increase in preventative health investments for Health Pot Treatment; 12 percentage point reduction in the likelihood of being unable to afford medical treatment (on a base of 31%) for HSA Treatment
Song(2013),China	Financial education(around explaining the principles of compound interest) related to investment in the government subsidized pension		Education (teach principles):99% Calculation(information-only):98%		Education:40% increase in pension contributions; Calculation: 19% increase in pension contributions	4.8% increase in estimated consumption each year after age 60 from Education treatment
Karlan*et al.* (2012), Philippines, Bolivia, and Peru	SMS and letter reminders to save				6% increase in total savings balance	

Source: Dean Karlin, Aishwarya Lakshmi Ratan and Jonathan Zinman(2014).

CONSTRAINT TO SAVINGS

1. Low Income: India is the fourth fastest growing country but the general mass income is too low to let them survive. They cant even think to save if their daily needs is still unfulfilled.
2. High Transaction Costs: Although this problem is reduce to some extent because of mass opening of bank branches since the nationalization (1969) of the banks. But some rural people are still facing the problem to access the bank and if they do so then they are too poor to pay the transaction cost.
3. Pecuniary and Non Pecuniary costs: Account opening fees, minimum balance requirements or marginal cost such as transaction fees and yields.The non- monetary costs associated with formal banking can be large enough to discourage poor households from using formal saving services.
4. Lack of Trust and Regulatory Barriers: Trust affects the willingness of individuals to use a particular financial institution based on their subjective assessment of its reliability. One

obstacle to the expansion of small-balance savings accounts that has been identified in a few settings is the due diligence requirement on these accounts (Ivatury and Mas, 2008; Jentzsch, 2009). KYC rules present several potential barriers to saving mobilization.

5. Information and Knowledge Gaps: Lack of information, low literacy rate and knowledge gaps is very most challenging barrier for saving.
6. Social Constraints: Social links and obligations can be enabling and/or constricting, and various studies have found evidence of both dynamics among the poor. Intra-household barriers to saving may be relevant if members of a household have different spending preferences and a lack of ability to commit to consumption/savings plans(the lack of commitment is a contracting failure that prevents intra –household bargaining from producing efficient outcomes). Inter-household barriers to saving may also be relevant if social norms necessitate that an individual provide support to friends and relatives if she is asked and has cash on hand.

Measures which have been taken till now for mobilization of saving in India

Measures Taken by GOI	Measures Taken by NABARD	Measures Taken by RBI
1. Customer Service Centres 2. Credit CounsellingCentres 3. Adhaar Scheme 4. The National Agricultural Insurance Scheme 5. No-frill Account 6. Know Your Customer 7. General Credit Card 8. Project on Processor Cards 9. Micro Finance Development Fund	1. Financial Inclusion Technology Fund 2. Separate Plan for Urban Financial 3. Inclusion and 4. Electronic Benefit Transfer Scheme 5. Financial Literacy through Audio 6. Visual medium - 7. Doordarshan 8. Support to Cooperative Banks and RRBs for setting up of Financial Literacy Centres 9. Farmers' Club Program 10. Rural Volunteers as Book Writers	1. Role of NGOs, SHGs and MFIs 2. BF and BC models 3. Micro Pension Model 4. Nationwide Electronic Financial Inclusion System 5. Project Financial Literacy 6. National Rural Financial Inclusion Plan 7. Financial Inclusion Fund 8. Project on "e-Grama" 9. SHG-Post Office Linkage

PRADHANMANTRI JAN DHANYOJANA(PMJDY) SCHEME

On the basis of the concept of inclusive growth, Prime Minister Narendra Modi has launched the very ambitious programme Jan DhanYojana on 28 August 2014 after the its announcement on 15th August 2014 with the slogan of MERA KHATA BHAGYE VIDHATA.The first phase of the scheme is about to be completed on 14th August 2015 and the second phase is going to get started with effect on 15th. The basic idea behind the launch of this scheme to bring saving in channel which is kept idle to rural poor or if there is no saving then generation of saving through the formal channel.

Implementation of the Scheme:-

1. The scheme is aimed to every single household(rural and urban) that do not have bank account.
2. The new bank account that will be opened under this scheme will be a zero balance account. So no minimum balance is required to owner.
3. The person opening the account will get free RuPay debit card to be used in various ecommerce and ATM services.
4. One family member gets 1,00,000 rupees life cover and the owner of the account receives a 30.000 rupees accidental cover if he opened his account on or before 26 Jan. 2015 by the leading insurance company of India i.e. LIC.
5. Six months of opening of the bank account, holders can avail Rs 5,000 loan in form of overdraft from the bank. If the owner pays back the loan on time then this amount will be increased by Rs 15,000.
6. Under this scheme the person is also liable to get an aadhar number on the spot.

PMJDY will be implemented in two phases:-

Phase I (15 Aug 2014 to 14 Aug 2015): Providing Basic Banking Accounts and RuPay Debit card which has inbuilt accident insurance cover of Rs. 1 lakh. Aadhaar number will be seeded to make account ready for DBT payment.

Phase II (15 Aug, 2015 - 14 Aug, 2018): Overdraft facility up to 5000/- after six months of satisfactory operation. Creation of Credit Guarantee Fund for coverage of defaults in A/Cs with overdraft limit up to 5,000/-. Micro Insurance Unorganized sector Pension schemes like Swavalamban. In addition, in this phase, coverage of households in hilly, tribal and difficult areas would be carried out. Moreover, this phase would focus on coverage of remaining adults in the Households and students. So in this phase by creating deposit for poor mobilization of saving target will be fulfilled.

Journey of PMJDY so far: A critical analysis:-

So the first phase has been completed now and how far poor people get motivated through this scheme can clearly be predicted on the basis of its performance till now.

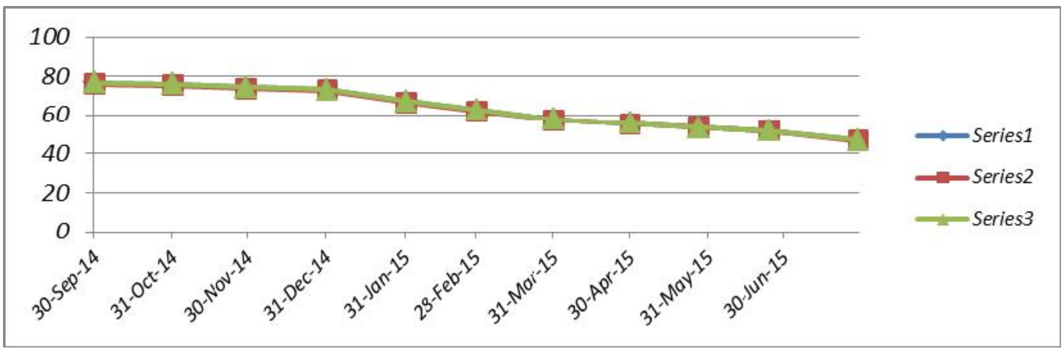
On the inaugural day, 1 crore bank accounts were expected but a record 1.5 crore bank accounts were opened across the country, the largest such exercise on a single day possibly anywhere in the world. Unveiling the scheme within 100 days of forming the new government, Modi said, it will cover 7.5 crore people by January 26, 2015. PMJDY on 20 January 2015 made it to Guinness Book of World Records. Indian banks opened 11.50 crore accounts under the PradhanMantri Jan DhanYojana within a very short span of 5months.

Sr. No.	Banks	No. of Accounts			No. of RuPay Debit Cards	Balance in Accounts	% of Zero Balance in Accounts
		Rural	Urban	Total			
1.	Public Sector Banks	7.41	6.11	13.51	12.42	1655.48	46.48
2.	Regional Rural Banks	2.63	0.45	3.08	2.23	3636.29	49.03
3.	Private Banks	0.41	0.28	0.69	0.61	1077.56	46.38
4.	Total	10.44	6.84	17.29	15.26	20769.33	46.91

PradhanMantri Jan DhanYojana(Accounts opened as on 29/07/2015(all figures are in crore)

Source:information is based upon data submitted by different bank/SLBCs.

Trends of Zero Balance Acconts under PMJDY-(All)(figures in %)



Series1 –bank- level percentage

Series2 –bank-category percentage

Series3 –overall percentage

Progress of PMJDY: About 4.18 crore bank accounts were opened up to September 2014.Total accounts opened under this scheme have increased to 17.29 crore till September 2015. Total RuPay debit card issued under the scheme are over 15.26 crore till September 2015. Further, total amount of deposits collected is 20.77 thousand crore. In this way, India is moving towards a cashless economy thereby linking the whole economy in bank channel and strengthening the governance policy of the government

Issues and Challenges: Provision of zero-balance bank accounts with overdraft facility of Rs 5000 per household after satisfactory operation of the account for six months has been made under PMJDY. It means banks have to provide overdraft facilities to 17.29 crore-bank accounts to the extent of Rs 86450 crore within the next four years or so. On paper it is too easy but on implementation it would be very difficult.Targets are completely depend on the number of bank branches and opening branches in extremely rural, backward and hilly areas is difficult. In some cases banks have taken some amount to open account which is contrary of the target of opening zero balance account. Poor telecom connectivity in rural and hilly areas is also another big challenge in the mission of 100% coverage of households in the country.

Conclusion: No doubt measures have been taken to mobilize saving before the launching of this program but the new program seems to cross all the borders for mobilization of savings. Every new thing to start is very easy but to implement and to continue with same degree is very difficult, can be realized in the newly launched ambiguous program PradhanMantri Jan DhanYojana in which 1.7 crore accounts were opened on the day of launching of the program and 76.81% in the next day of launching. And on 29th September 2015 this figure increased to the level of 17.29 crore. Although the speed is going to be slow but it is going smoothly. First phase has been completed successfully and second phase started with great expectations. Any financial program needs full support of our government, banking operation, financial literacy, telecom connectivity and individual responsibility. Until we all do not play an active role by becoming a important part of the programme, all of its ambition will in vain.

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