



An Evaluation of the Financial Inclusion measures of Government of India.

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ABSTRACT:

In order to achieve inclusive financial growth, India must overcome a number of obstacles due to its large population and diverse economy. The goal of financial inclusion is to give everyone in society, particularly the less fortunate, access to important and reasonably priced financial services. This study examines the efficacy, difficulties, and potential paths of the financial inclusion initiatives implemented by the Indian government and other financial organizations. Initiatives like the Pradhan Mantri Mudra Yojana, the Jan Dhan Yojana, financial literacy campaigns, and the digitization of financial services are all evaluated in the report. The study also looks at the problems faced by marginalized groups and how technology might help advance financial inclusion. The report offers a thorough grasp of India's financial inclusion situation as it stands today as well as a path forward.

Keywords: Financial Inclusion, India, Digital Financial Services, Government Schemes, Economic Development

Introduction:

In a nation like India, where a sizable section of the populace is still not able to access official financial systems, financial inclusion is essential to attaining wider economic growth. Financial inclusion, according to the Reserve Bank of India (RBI), is the process of guaranteeing equitable, transparent, and easily available access to the right financial goods and services that all societal sectors require. In order to promote financial inclusion and ultimately reduce poverty, improve income equality, and expand economic opportunities, India has put in place a number of laws and programs over the years. The paper seeks to assess India's financial inclusion policies by looking at both technical advancements and government-led programs. An outline of the main financial inclusion programs, their results, difficulties, and prospects for the nation's financial inclusion in the future will be given in the parts that follow.

Objectives:

The research aims

- **To Analyse the Effectiveness of Financial Inclusion Programs in India:** This research intends to evaluate the impact and effectiveness of various financial inclusion programs introduced by the Indian government, including the Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Mudra Yojana (PMMY), Atal Pension Yojana (APY), and Direct Benefit Transfers (DBT). It aims to comprehend the results of these initiatives in improving access to formal financial services for underserved communities.
- **To Assess How Digital Financial Services Contribute to Financial Inclusion:** This goal emphasizes analysing the impact of digital financial services, such as mobile banking, UPI, Aadhaar-linked payment systems, and fintech advancements, on enhancing financial access for both rural and urban communities in India.
- **To Recognize the Obstacles and Hindrances to Financial Inclusion in India:** The study seeks to pinpoint the primary obstacles encountered by marginalized and underserved groups in obtaining financial services. These obstacles include factors like insufficient financial literacy, inadequate digital infrastructure, gender inequality, and restricted access to credit.
- **To Examine the Role of Financial Inclusion in Alleviating Poverty and Promoting Economic Empowerment:** This goal aims to investigate how initiatives for financial inclusion have helped in reducing poverty and enhancing economic empowerment, especially for low-income populations, women, and micro-entrepreneurs.
- **To Assess the Gender Disparity in Financial Inclusion:** This goal aims to analyse the differences in financial inclusion between genders, concentrating on the obstacles women encounter in accessing financial services and offering suggestions to close this gap.

Financial Inclusion measures taken by the Government of India:

The Indian government has rolled out a variety of significant measures and initiatives over the years to enhance financial inclusion throughout the nation. These initiatives seek to guarantee that marginalized groups, particularly those in rural and economically disadvantaged regions, can access fundamental financial services such as savings, loans, insurance, and pensions. Listed below are some of the principal initiatives and policies focused on financial inclusion that have been established:

- **Pradhan Mantri Jan Dhan Yojana (PMJDY)**

Launch Year: 2014

Goal: To guarantee that all households in India, especially those formerly excluded from banking services, have access to financial resources.

Key Features:

1. **Universal Access:** The initiative seeks to establish a basic savings bank account for every household across the nation.
2. **Zero-Balance Accounts:** Individuals can open accounts without needing to keep a minimum balance, making it easier for low-income individuals to participate.
3. **Direct Benefit Transfer (DBT):** PMJDY enables the direct deposit of government subsidies and welfare benefits into the beneficiaries' bank accounts, thus minimizing corruption and losses in the system.
4. **Overdraft Facility:** In certain situations, PMJDY account holders can receive an overdraft option, which may be utilized during emergencies.

- **Pradhan Mantri Mudra Yojana (PMMY)**

Launch year: 2015

Goal: To ensure small and microcrack microfinance support, especially in rural and semi-urban areas, and for entrepreneurship support.

Key functions:

1. **Loan Category:** Loans are offered based on three categories.
2. **Shishu:** Loans up to Rs.50,000.
3. **Kishore:** Loans from Rs.50,000 to 5,00,000.
4. **Tarun:** Loans from rs.5,00,000 to 10,00,000.
5. **No Collateral Requirement:** Loans are provided without the need for collateral, making it easier for small business owners and micro-entrepreneurs to access credit.
6. **Focus on Women and Marginalized Groups:** The scheme particularly targets women, Scheduled Castes (SC), Scheduled Tribes (ST), and Other Backward Classes (OBC) to ensure inclusive growth.

- **Atal Pension Yojana (APY)**

Launch Year: 2015

Goal: To guarantee unorganized sector workers' financial stability upon retirement by offering pension coverage.

Key features:

1. **Eligibility:** The program is open to anyone between the ages of 18 and 40.
2. **Pension Benefits:** Depending on their contributions, subscribers can get a monthly pension of ₹1,000 to ₹5,000 once they turn 60.
3. **Modest Contribution:** Under the program, those with modest incomes can begin making monthly contributions as little as ₹42.
4. **Government Co-payment:** For the first five years of the program, the government pays 50% of the total yearly payment or ₹1,000, whichever is less, to subscribers who fall into the low-income category.

- **Digital Financial Inclusion Initiatives**

Besides conventional banking, the Indian government has made substantial investments in digital financial inclusion efforts to enhance the accessibility of financial services for individuals in distant regions, where physical infrastructure might be insufficient. These efforts comprise:

1. **Unified Payments Interface (UPI)**

Launch Year: 2016

Goal: To facilitate seamless, immediate, and secure digital transactions using smartphones, ensuring access to financial services for individuals in rural communities.

Key Features:

- Facilitates instant payments between peers as well as between peers and merchants.
- Supports transactions across various banks, enhancing the ease of digital payment options.
- Allows for both mobile and online transactions, aiding in the shift towards a cashless economy.

2. **Aadhaar and Aadhaar-based Payment Systems**

Goal: To assign a distinct identification number (Aadhaar) to every resident of India, which can be utilized for verification when accessing various financial services.

Key Features:

- **e-KYC:** The Aadhaar number facilitates electronic Know Your Customer (e-KYC), streamlining the process of opening bank accounts and obtaining financial services, making it faster and more secure.
- **Aadhaar Payments Bridge (APB):** A system that allows the direct transfer of welfare benefits to individuals through

Aadhaar-linked bank accounts, enhancing the efficiency of subsidy delivery and minimizing leakages.

3. Bharat Bill Payment System (BBPS)

Goal: To establish a unified platform for settling utility bills, including electricity, water, and gas, making it accessible for rural communities to conveniently pay their bills.

Key Features:

- Enables users to effortlessly pay for utilities and other services through both digital and physical methods.
- Compatible with various payment options such as mobile wallets, UPI, debit/credit cards, and bank transfers.

- **Direct Benefit Transfer (DBT)**

Launch Year: 2013

Goal: To minimize corruption and leakage by ensuring that government welfare benefits and subsidies reach the intended recipients directly.

Key Features:

1. Welfare and Subsidies: Direct bank account transfers of food, gas, electricity, and other service subsidies are made possible through DBT.
2. Digital Payment System: Ensures efficiency and transparency by transferring money using Aadhaar and connected bank accounts.
3. Real-Time Transfers: By transferring money instantly, people can avoid delays and quickly obtain their benefits.

- **Financial Literacy and Awareness Programs**

Additionally, the government has started several programs to raise financial literacy nationwide:

1. The Reserve Bank of India (RBI) introduced the National Strategy for Financial Literacy to raise awareness of digital literacy, financial services, and products.
2. Week of Financial Literacy (FLW): yearly campaign to advance financial literacy via a range of media platforms and neighbourhood-based events.
3. A network of individuals in rural areas known as banking correspondents (BCs) serve as go-betweens to offer banking services and financial literacy to the local populace.

Research Methodology:

This research study uses secondary data to assess India's financial inclusion initiatives. Data that has previously been gathered and examined by other scholars, institutions, or governmental entities is referred to as secondary data. By examining publicly accessible reports, databases, and research studies, the objective is to evaluate the success of financial inclusion programs and regulations.

This study's descriptive and comparative research design aims to comprehend the scope and effects of India's financial inclusion initiatives over time. Secondary data is used to characterize the efficacy of financial inclusion policies and to pinpoint trends and obstacles. It can be found in national reports, scholarly studies, government publications, and policy documents.

Findings:

The analysis of secondary data reveals several key insights about India's financial inclusion measures, particularly the efficacy of government initiatives.

1. The Pradhan Mantri Jan Dhan Yojana (PMJDY):

- It was successful in opening bank accounts: According to Ministry of Finance and RBI reports, over 450 million PMJDY accounts have been opened since the scheme's inception in 2014. This is a significant achievement in bringing unbanked people into the formal banking system.
- Active Accounts: Despite the large number of accounts, a significant percentage of these are inactive. According to RBI reports, approximately 40-50% of PMJDY accounts remain dormant, owing to a lack of financial literacy and infrequent use for purposes other than receiving government benefits.
- Access to Government Benefits: PMJDY has played an important role in Direct Benefit Transfers. The DBT system, which is linked to PMJDY accounts, has successfully transferred welfare benefits to millions of beneficiaries, including food and gas subsidies.

2. Impact of Digital Financial Inclusion:

- Unified Payments Interface (UPI): Since its launch in 2016, UPI has grown at an exponential rate. As of 2024, there were more than 7 billion UPI transactions recorded per month. This marks a significant shift to digital financial services and cashless transactions. The data show that UPI has been particularly successful in urban areas, but its reach in rural areas is still expanding due to challenges with internet connectivity and smartphone penetration.
- According to reports from the National Bank for Agriculture and Rural Development (NABARD), digital literacy remains low in rural areas, limiting the widespread adoption of digital payment systems. However, government initiatives such as Digital India have been critical in increasing digital literacy and inclusion.

3. Pradhan Mantri Mudra Yojana (PMMY):

- Loan Disbursements: According to the Ministry of Finance, over 27 million loans have been disbursed through PMMY to support micro-enterprises and entrepreneurs across India. These loans have primarily been used to support small businesses, agriculture, and the service sector.
- Challenges: Data show that loan defaults remain a significant issue, with default rates estimated at 10-15%. High interest rates, a lack of proper documentation, and issues with financial literacy all contribute to defaults.
- Entrepreneurship Growth: Despite these challenges, PMMY has been instrumental in promoting entrepreneurship, particularly among women and marginalized communities. Secondary data from surveys conducted by organizations such as ICRIER indicate that PMMY has been most beneficial to first-time entrepreneurs and women in rural areas.

4. Gender Disparity in Financial Inclusion:

- Gender Gap in Access: Data from World Bank and RBI reports show that women in India continue to face significant barriers to financial services. There is a gender gap, particularly in rural areas, where fewer women than men have formal bank accounts. According to NABARD and the Ministry of Rural Development, only 34% of rural women have access to formal financial services, while 58% of men do.
- Government initiatives for women: While programs such as PMMY have attempted to close the gender gap by focusing on female entrepreneurs, data show that there is still a disparity in access to credit and financial services.

5. Barriers to Credit Access:

- Collateral Requirements: Secondary data from banking institutions show that, despite the availability of credit schemes such as PMMY, many people, particularly those in rural areas, are unable to obtain loans for lack of collateral. This problem is more prevalent among small businesses and individuals in the informal sector.
- Credit Ratings and Financial Literacy: Financial literacy remains a significant barrier. Many people, particularly in rural and semi-urban areas, lack the necessary knowledge to apply for loans and understand credit terms. Data from financial literacy campaigns show a significant disparity in financial education, particularly in rural and marginalized communities.

6. Impact of Financial Literacy Programs:

- Low Financial Literacy: Various studies and reports from institutions such as NABARD and ICRIER show that financial literacy remains low in rural areas. According to RBI and Financial Literacy Week data, only 43% of rural Indian adults have a basic understanding of financial products.
- Government Efforts: The government's emphasis on financial literacy programs through initiatives such as the National Strategy for Financial Literacy and Financial Literacy Week (FLW) has resulted in gradual progress. However, the reach and impact of these programs remain limited.

Discussion:

- The secondary data analysis revealed that, while India has made significant progress in advancing financial inclusion, several challenges remain. Government initiatives such as PMJDY, PMMY, and UPI have helped to improve access to financial services. However, the data reveals the following major issues
- Inactive Bank Accounts: A sizable number of PMJDY accounts remain inactive. This suggests that simply opening a bank account does not automatically translate into financial inclusion. Greater efforts in financial literacy and capacity building are required to ensure that people use these accounts effectively.
- Gender Gaps: The data show a persistent gender disparity in financial inclusion. While some programs target women, women's overall financial inclusion remains lower than men's. To close this gap, we need gender-sensitive policies and initiatives.
- Digital Divide: Despite the success of UPI and other digital initiatives, digital literacy and internet access remain barriers to financial inclusion, particularly in rural communities. Growth in smartphone penetration and digital education are critical to overcoming these challenges.
- Access to Credit: While credit schemes such as PMMY have helped to promote entrepreneurship, barriers to borrowing remain due to a lack of collateral and financial literacy. Financial institutions must investigate alternative credit scoring methods and collateral-free loan options to ensure that credit is available to everyone.
- The findings highlight the critical need for widespread financial literacy programs to close knowledge gaps. The National Strategy for Financial Literacy should evolve further, focusing on underserved populations with simple financial education materials.

Conclusion:

Over the last decade, India has made remarkable progress in terms of financial inclusion, thanks primarily to government initiatives and technological advancements. However, challenges such as digital infrastructure, financial literacy, and credit access continue to impede true financial inclusion. By addressing these issues and focusing on targeted measures for underserved populations, India can ensure that financial services reach all sectors of society, contributing to long-term and inclusive economic growth.

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