MAKING THE CASE

India

Case Studies on Inclusive Economic Development

Center for Inclusive Growth

MUNK SCHOOL OF GLOBAL AFFAIRS & PUBLIC POLICY

UNIVERSITY OF TORONTO

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Mastercard Center for Inclusive Growth

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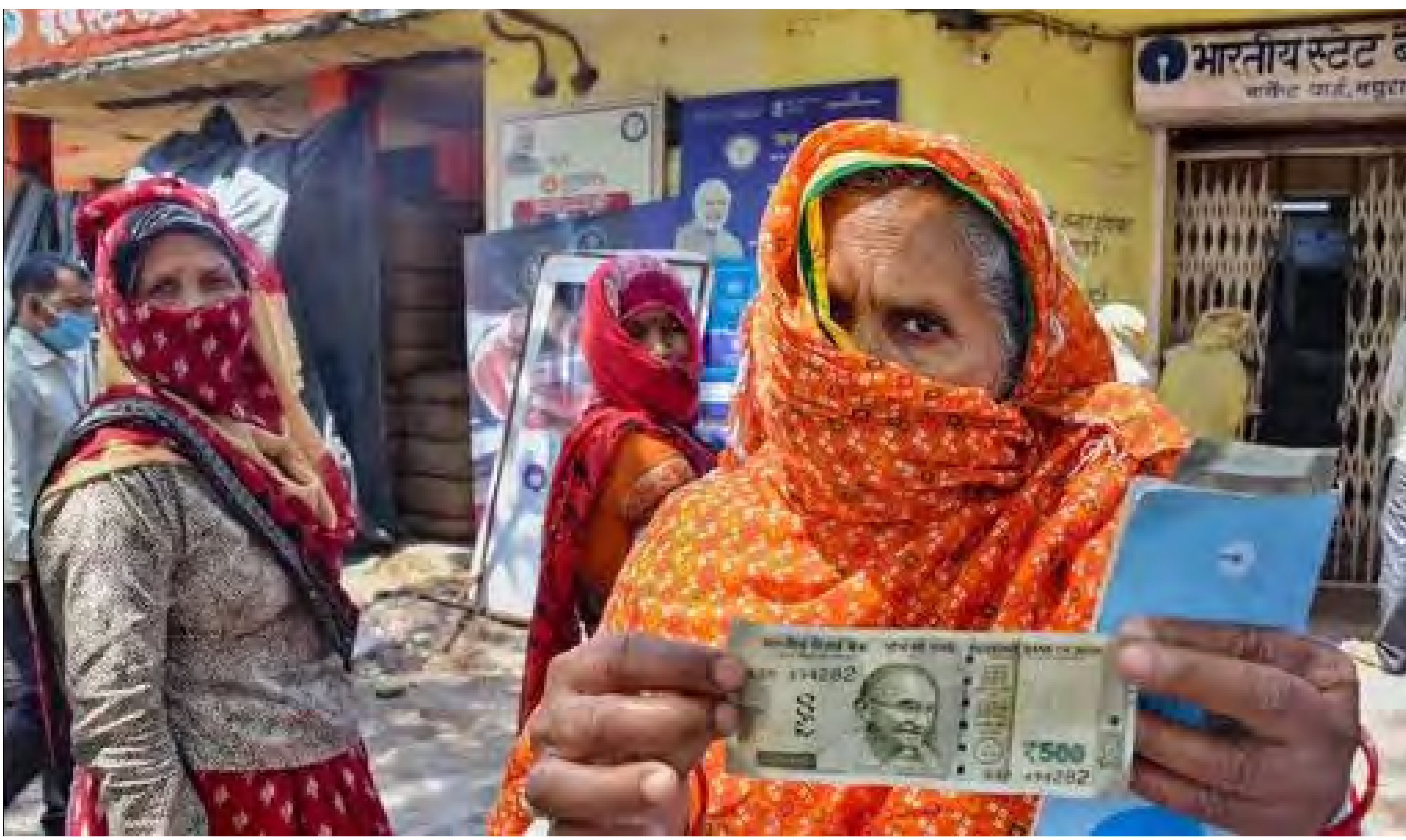

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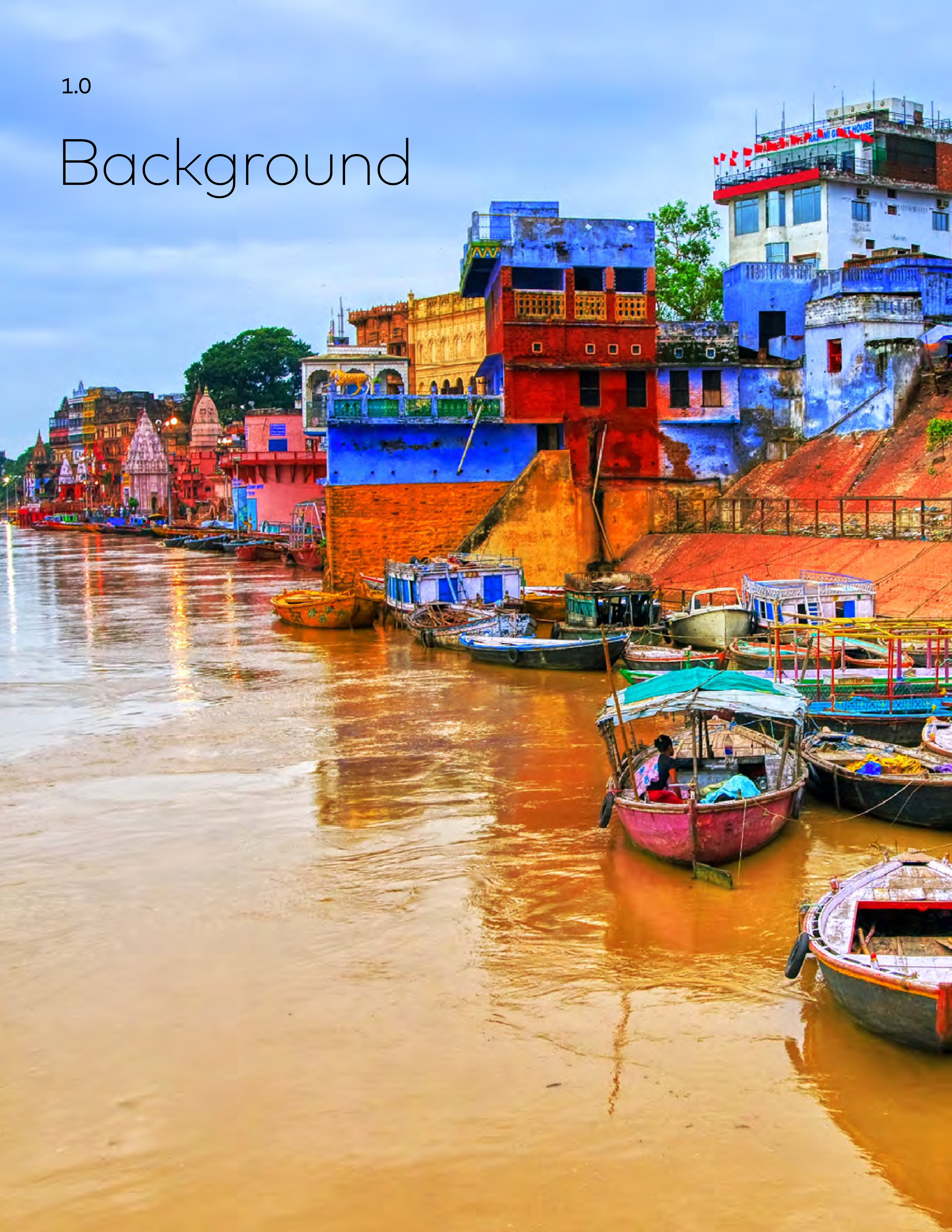
Background



1.1 Financial inclusion

Financial inclusion is the process of making formal financial services available, accessible and affordable to all members of an economy (Dasgupta, 2009). Financial inclusion is of particular importance in countries such as India, the sixth largest economy in the world, where only 35% of the adult population own a bank account, and of which a significant minority are women (Dewan & Mal, 2021). In 2017, only 26.5% of Indian women were involved in the financial system (WWB, p.7).

The exclusion of women from formal financial services places significant barriers on their ability to save and actively participate in Indian society. Notably, financial exclusion is known to increase dependency on male household members, thereby reducing women's bargaining power (Dewan & Mal, 2011). A gender perspective on financial inclusion has the power to bolster government efforts to include India's excluded populations in the banking sector, thus advancing their role in the economy.

1.2 PMJDY: Financial inclusion for Indian women

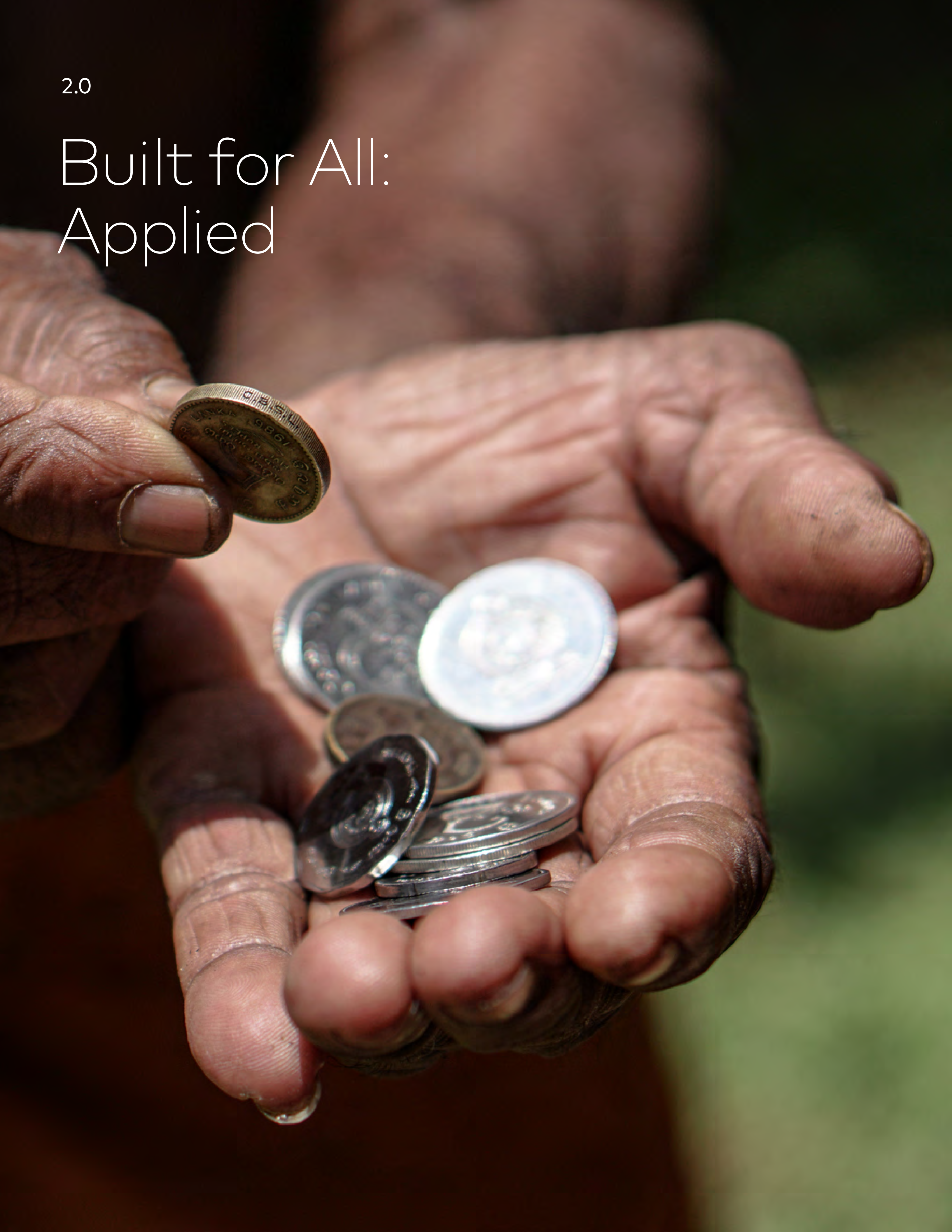
The Pradhan Mantri Jan Dhan Yojana (PMJDY), a programme aiming to address the widespread financial exclusion of low-income and marginalised populations in India, was implemented by the Indian government in 2014 (Joshi & Rajpurohit, 2016). The programme, which roughly translates to 'People's Wealth Scheme', primarily aims to ensure no household is excluded from the financial system, in accordance with the priorities of Prime Minister Narendra Modi's political agenda (Nimbrayan et al., 2018). Some key pillars of the programme include providing universal access to banking, providing universal bank account access and improving financial literacy (Joshi & Rajpurohit, 2016). This involves making financial institutions more accessible, incentivising individuals to maintain satisfactory credit and provisioning financial literacy, micro-insurance and pension schemes. Overall, the region uses an integrated approach to ensure that all households in India are financially included (Indian Ministry of Finance, 2014, p.30). The effective collaboration of public and private stakeholders has facilitated the success of the PMJDY programme. State support is crucial to lead on defining the programme's objectives, while the banking sector has connected a large low-income bracket to financial institutions (Indian Ministry of Finance, 2014, p.2).

Since its implementation, 428.9 million low-income Indians have been positively impacted by the programme (WWB, 2021, p.6). Women compose a significant portion of this population: a majority of PMJDY-allocated accounts are women-owned, making them important programme stakeholders. The Global Findex Report 2017 reveals that the proportion of women in India who owned a bank account grew from 43% in 2014 to 77% in 2017, and much of this success is attributed to the PMJDY (Global Findex, 2021; WWB, 2021). By providing low-income populations with the tools to escape poverty, financial inclusion through the PMJDY can also contribute to broader levels of economic growth.

The PMJDY demonstrates an interesting case study to be applied to the Mastercard Foundation's Built for All (BFA) framework. The following sections examine the programme in accordance with the BFA's three pillars for inclusive growth.

2.0

Built for All: Applied



2.1 Pillar One: Equitable access to resources and opportunities

This pillar seeks to account for external factors, such as race and religion, which contribute to socially constructed barriers to inclusive growth (Franco et al., 2021, p.17). These barriers generate widening disparities, perpetuating a lack of access for disadvantaged, marginalised and vulnerable communities around the world (OECD, 2016).

Here is a snapshot into how Amartha achieves this:

Strengths

PMJDY objectives align with inclusive growth. Beyond opening bank accounts, the scheme identifies additional objectives such as universal access to banking facilities and financial literacy programmes (Nimbrayan et al, 2018). These objectives facilitate ideal outcomes associated with the pillar, including access to financial systems, education and training on financial literacy and pathways toward individual wealth (Franco et al., 2021, p.22). By introducing savings accounts, needs-based credit, insurance and pension to low-income groups, the PMJDY ultimately facilitates equitable access to resources and opportunities.

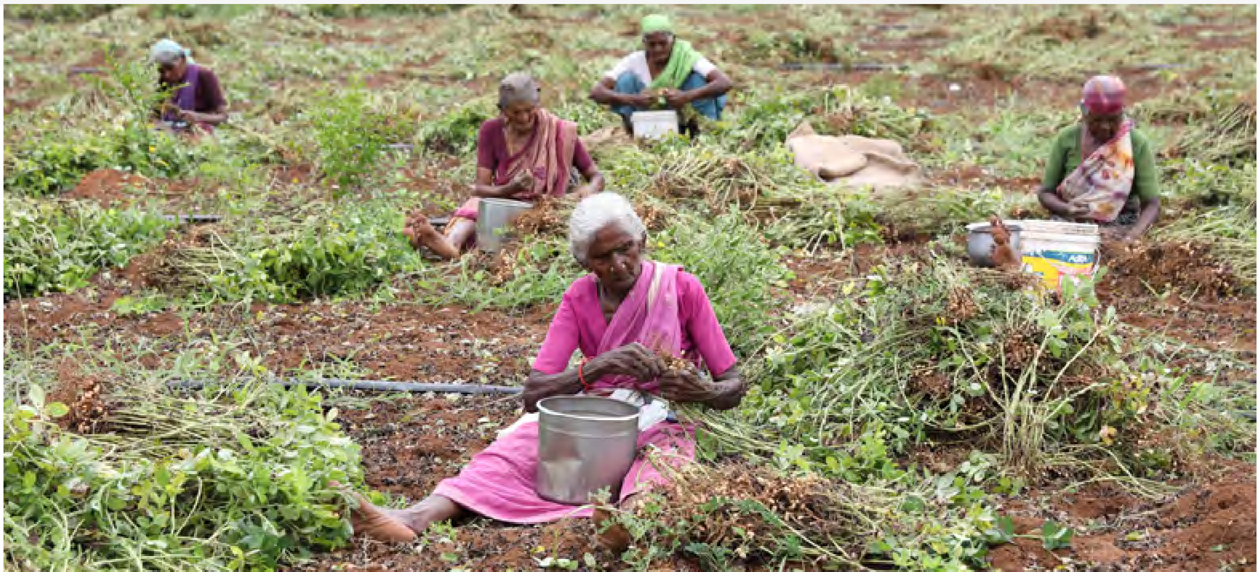
Increased likelihood of financial inclusion for women. The probability of women owning a bank account increased by 26% after the introduction of the PMJDY scheme (Chavan, 2020). Ultimately, this is an important milestone toward inclusive growth and accounting for economically disadvantaged people and women.

Opportunities for enhancing inclusion

Opening a bank account does not in itself constitute financial inclusion. WWB (2021, p.7) revealed that 42% of the women who opened a PMJDY bank account had not used it in the past year. To ensure full access to resources and opportunities, a continuous use of bank accounts and financial services is needed.

There is an opportunity to build awareness of financial products and services provided by banks. Access requires efficient communication for stakeholders. This can be done by establishing campaigns, workshops and training programmes on PMJDY and financial literacy. An adequate understanding and training on PMJDY will positively impact the usage of bank accounts beyond receiving and withdrawing cash.

By training banking agents on financial literacy for marginalised populations, knowledge will be more efficiently shared with customers and bank products and services will be perceived as more trustworthy. Providing training to staff, who are especially trusted by low-income women (WWB, 2021), would contribute to a larger and more continuous use of bank accounts by PMJDY's target populations.



2.2 Pillar Two: Collective stewardship of shared resources for future generations

The BFA's second pillar, which entails a consideration of long-term impact to ensure that solutions create present and future positive change (Franco et al., 2021, p.28), can also be applied to the PMJDY.

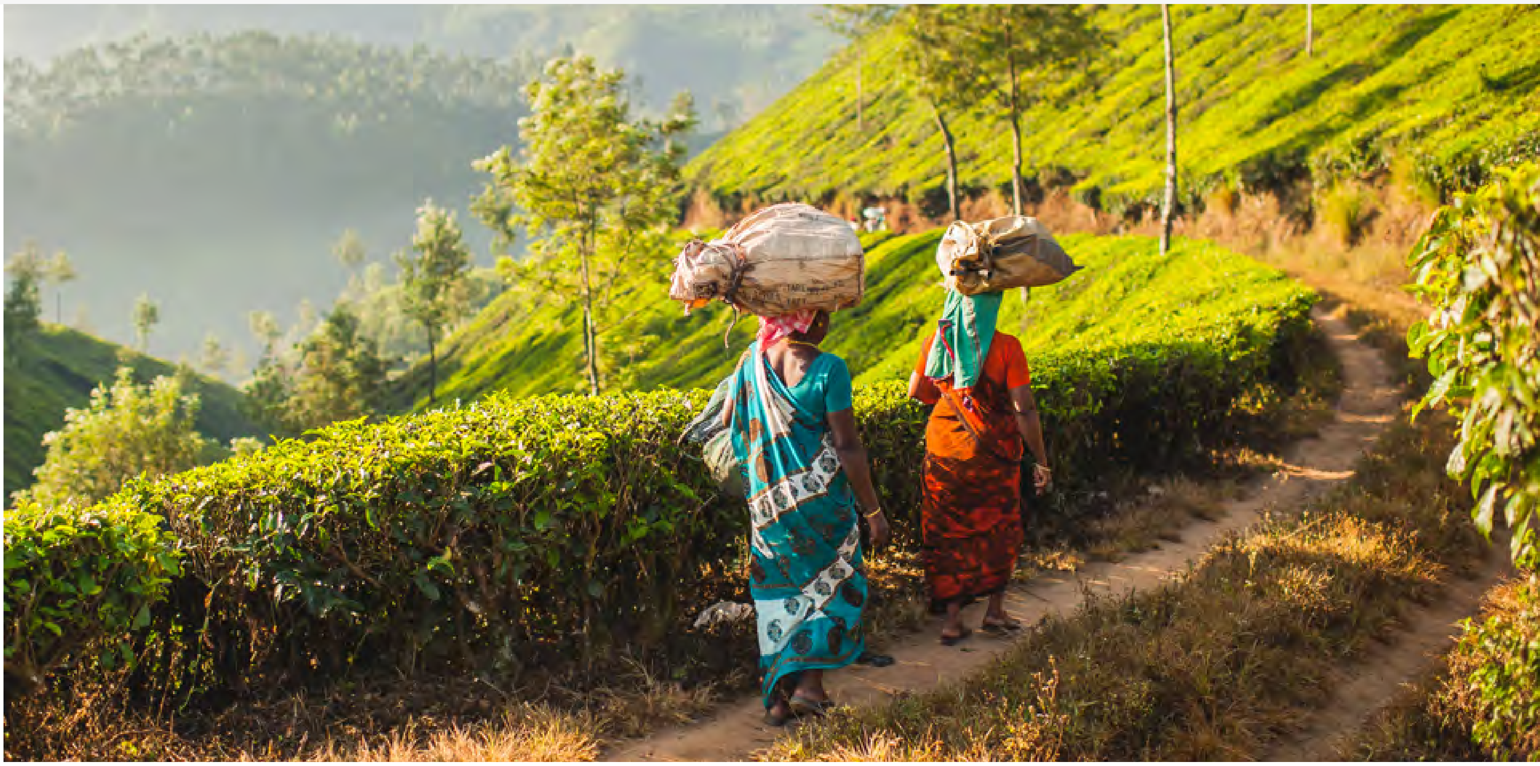
Strengths

Inclusive banking falls into the need for future generations to benefit from public infrastructure (Franco et al., 2021, p.31). By empowering marginalised groups, such as low-income women, to become involved in the financial system, PMJDY promotes long-term, intergenerational wealth creation and poverty reduction. As influencers within family and community circles, women can create a ripple effect of financial inclusion: a woman's decision to open a bank account can influence other individuals in her surroundings to do the same (WWB, 2021, p.16).

Balancing short-term goals and long-term interests ties into the need for private actors to balance their immediate goals with the long-term interests of programme stakeholders (Franco et al., 2021, p.31). In the PMJDY, banks benefit from gaining new customers, as women opening bank accounts represent an untapped market segment (WWB, 2021, p.17). This is a win-win scenario, whereby women have improved access to financial services while banks benefit from a newly accessible market segment.

Opportunities for enhancing inclusion

Nonetheless, for women to have a lasting and intergenerational impact on financial inclusion, they must unlearn certain habits and assumptions about banking (WWB, 2021, p.24). A common misconception among women is that PMJDY bank accounts can only be opened with a minimum deposit, which disincentivises lower-income populations to join the programme (WWB, 2021, p.24). Addressing these awareness gaps impeding financial participation will require time and dedication from the government and the banks to create long-term positive change.



2.3 Pillar Three: A level playing field for work and competition

Finally, the PMJDY can be applied to BFA's Pillar Three, as improving access to financial services for women in India is essential for creating a level playing field in the economy.

Strengths

Women gain financial resilience and autonomy. By opening bank accounts, women accumulate interest through regular savings, hedge against financial shocks and therefore provide a stimulus to encourage formal recurring savings. This nurtures women's savings habits and improves the financial resilience of millions of households (WWB, 2021, p.21). As a result, women gain autonomy in their financial decisions, and barriers to competitive labour markets are removed.

PMJDY provides access to multiple financial services as tools to develop women's financial autonomy, allowing them to contribute to economic growth. Crucially, financial literacy enhances women's ability to take advantage of the opportunities brought by the future of work. This generates tremendous social equity growth within the community, as women's ownership and control of savings are shown to accelerate their development and reduce poverty and inequalities (Robino, 2020).

The outcomes of the PMJDY scheme demonstrate that, when women gain the knowledge and tools to use financial services, they become regular savers and economic ambassadors in their communities by directly contributing to the assets and liabilities of their local banks.

Opportunities for enhancing inclusion

A further step would be to connect the financial inclusion scheme with businesses led by women. This would promote the needs of small businesses in India, making them more competitive and reinforcing their market dynamism. In this case, PMJDY would encourage women-led businesses to develop faster by removing financial barriers to growth, improve financial literacy for India's businesswomen and make business activities more competitive at large (Robino, 2020).

2.4 Conclusion

As examined in this report, the PMJDY scheme in India applies to the three pillars of the BFA framework. Financial inclusion through the PMJDY increases the reach of India's financial system by developing a habit of saving among marginalised sections of the population, including low-income women. Looking ahead, financial inclusion programmes in India should continue to prioritise gender-conscious and women-centric approaches to maximise the effects of inclusive growth.

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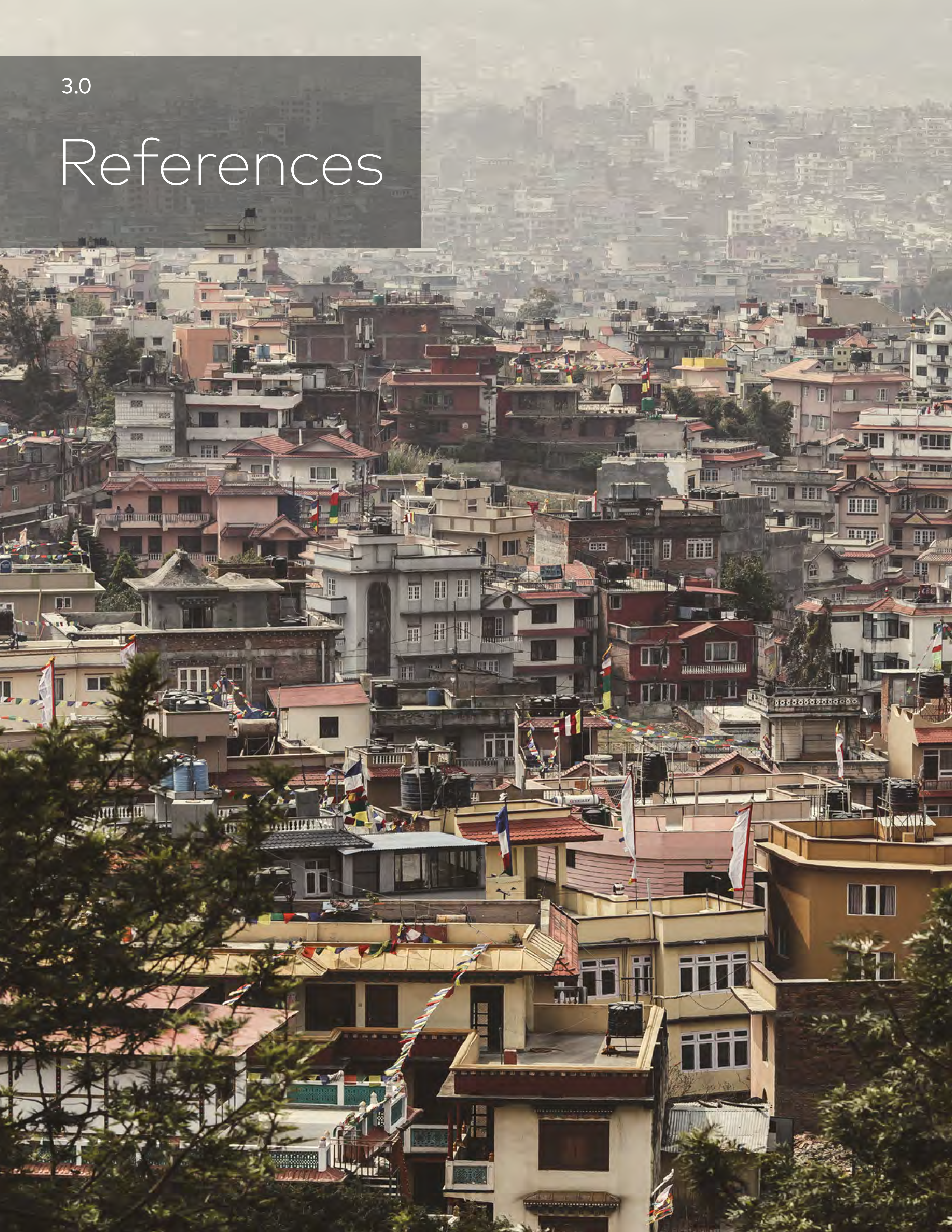

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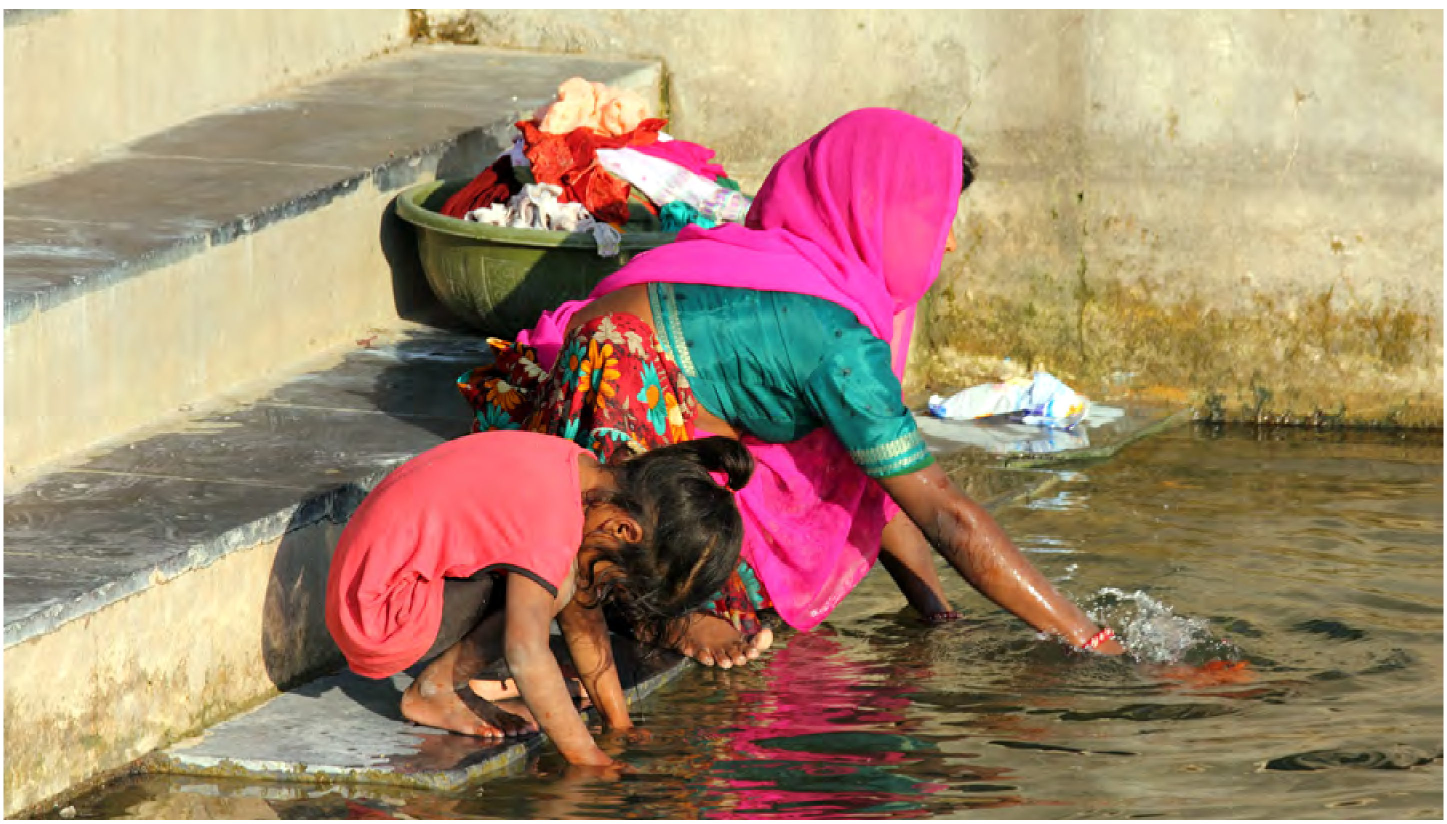

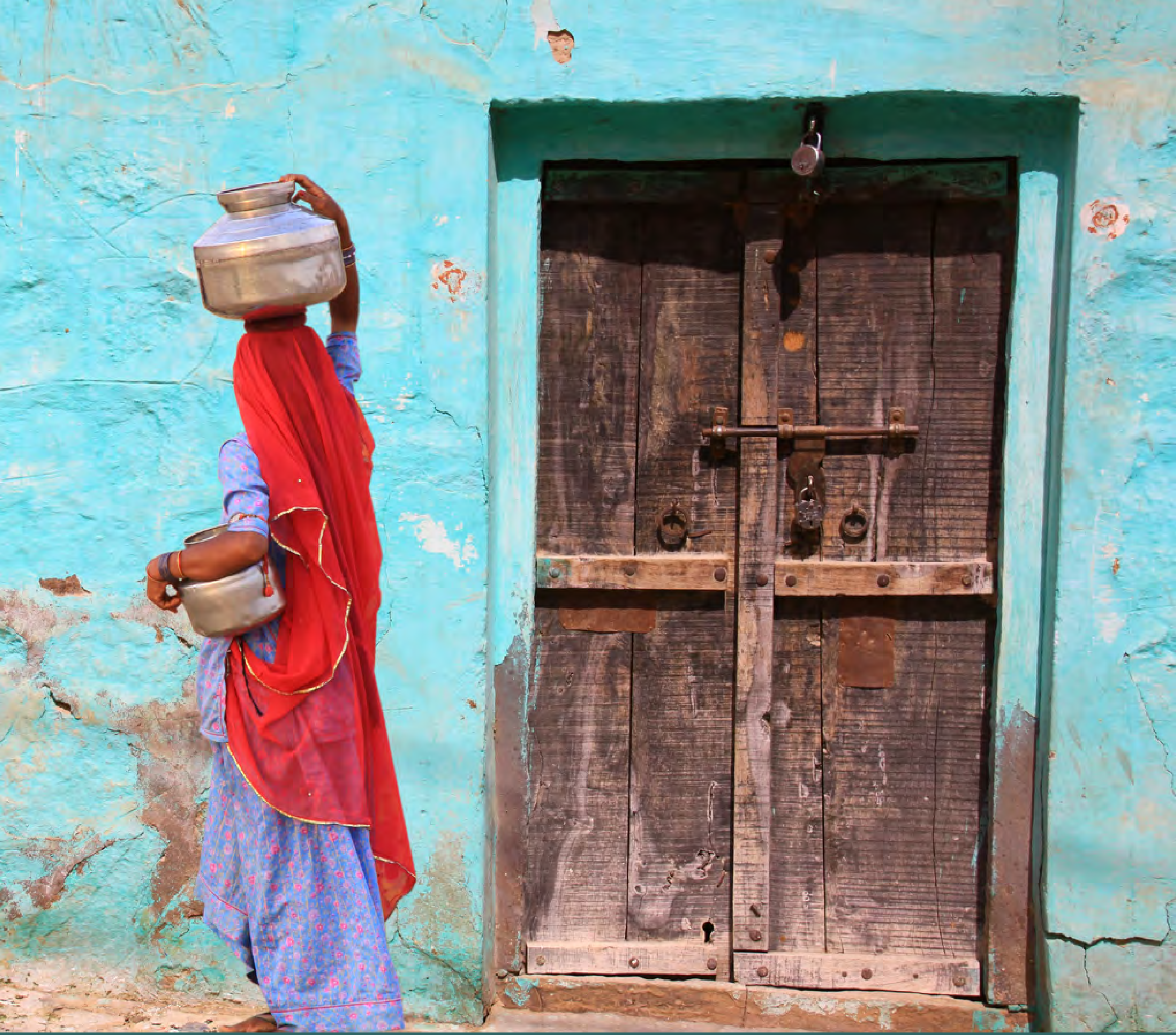

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If you are interested in partnering with us to build inclusive economies that serve all people and the planet, get in touch with our team: **inclusive_growth@mastercard.com**

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