This transaction is still incomplete

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Earlier this month, the ministry of finance announced that over 50 million new bank accounts have been opened and 17 million debit cards issued since the launch of a bold new plan to grant financial access to the poor. Prime Minister Narendra Modi announced this initiative, called the Pradhan Mantri Jan Dhan Yojana (PMJDY), in a speech in August. Its ultimate goal is to reach 150 million unbanked rural poor people, giving them formal accounts that come with automatic life insurance, among other benefits, and can serve as destinations for payments from the MGNREGS and other government schemes. It is the most high-profile, and possibly the largest, campaign for financial inclusion in recent memory, and it is admirable in its aim to deliver much-needed services to the rural poor.

On October 7, a few days after releasing those figures, Modi sent an email to bank officers and staff congratulating them on their success so far, but also warning them that the “journey is bound to become more difficult.” This is almost certainly true. Opening accounts and issuing cards create impressive numbers but amount to little more than creating computer files and encoding bits of plastic. It is when money starts to flow in and out of those accounts, often at the hands of public and private agents with their own set of motivations, concerns and incentives, that the real work begins.
We are a team of researchers who, for the past year and a half, have partnered with the government of an Indian state to study the rollout of an ambitious regional financial inclusion programme, the goal of which is to give poor rural households bank accounts and local access to small bank branches staffed by single agents. For the past year, we have monitored 199 of these mini-branches and conducted a survey of over 15,000 households (26,000 individuals) living in their catchment areas. The study is underway, and our specific goal is to measure the effect on women’s empowerment. Meanwhile, we have witnessed up close numerous ways in which the regional initiative has failed, and the kinds of hurdles the PMJDY will have to clear if it is to successfully improve the financial lives of the rural poor. We have some insights that may be valuable in the implementation of the national scheme.
First, it is crucial to structure incentives so that all those involved in implementing the PMJDY, right down the chain of command, are motivated to achieve universal financial inclusion. In our case, the high-level bank management was committed to creating mini-branches and opening accounts, but middle managers had little reason to comply: their resources were continued...

Tags: MGNREGS Narendra Modi Pradhan Mantri Jan Dhan Yojana