# Public Policy Management: A case of Inclusive Growth

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## Abstract

*The mechanism of public policy management involves public policy formulation, implementation and management for various social and economic development aspects. The effectiveness of a successful public policy management is measured in terms of the degree of success in achieving the results for which the policy was formulated. In India, there have been many experiments in the direction of uplifting the down trodden right from the independence. Somehow, the results of various experiments implemented in this direction have not been a expected leaving many lacunae in bringing qualitative improvements. Recently, the government launched PMJD Yas a strong weapon to fight for the cause of poor and there by bring down the degree of poverty to a greater extent. The scheme seems to be unique in many ways such as, a comprehensive approach, provision of social security, exclusive arrangements for credit, linking various benefits through IT etc. The primary performance of the scheme indicates certain positive signs towards the goals.*

*In this paper an attempt is made to take snap short of the missing links in implementing certain experiments for bringing economically weaker sections above the poverty line, analyzing the unique features of PMJDY and finally raising some issues where policy makers should think beyond PMJDY.*

***Keywords:*** *PMJDY, public policy, poverty, social security, interlink ages*

## Introduction

The process of Public policy formulation, implementation and monitoring contributes significantly for the growth and development of an economy. The success of public policy is measured in terms of economic growth in general and more particularly the development and progress of the segment for which the policy was formulated and implemented. The quality and commitment of people at large in implementation of a policy assumes more significance in the overall success of a policy program. The very first task of formulation of a public policy is itself a herculean specially for a country as large, populous and diverse as India (Agarwal OP & Somanathan TV, 2005).Thedeficiencies in public policy can happen generally at two stages either at the policy formulation or at the implementation stage. Again this has to be perceived in the context of nature of public policy being formulated. In this paper, an attempt is made to study some of the policy lapses formulated and implemented for the betterment of the downtrodden in the past and at the same time to analyses the unique features of policy formulation in the case of inclusive growth.

Among the series of experiments undertaken for the sake of rural development and there by an effort to uplift the downtrodden strata of the society right from the independence and more particularly after the nationalization of Commercial banks in July 1969, the recent being, the Financial inclusion. Financial inclusion is said to be a crucial factor for the inclusive growth in the most interior rural areas. The whole approach seems to be bit different from the earlier approaches adopted and implemented to achieve the desired results. This can be

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explained in terms of comprehensive approach which focuses on financial services, financial savings and social security by providing pension funds and insurance products etc. Financial services are meant to provide required financial assistance from institutional arrangements for sustainable projects and regular income to the poor while financial savings are to be generated by the people through developing the savings habits. The primary focus remains unchanged and very much matches with the earlier approaches adopted for uplifting the poor and down trodden.

## In Retrospect

Before discussing opportunities and challenges in implementation of inclusive growth, one needs to have a relook over the series of programs launched through banking system for attaining similar objectives. To mention the important ones;

The Lead Bank Scheme was implemented immediately after Banks' nationalization in 1969 with a view to expand banking services to the hither to neglected banking areas and extend credit to the needy.

The RBI identified priority sectors where banks were required to finance liberally and on priority basis. At present 40 per cent of bank's credit need to be extended under this. This limit was fixed in 1985and all the banks achieved this target.

Twenty Point Economic Program was implemented to finance economically weaker sections of the society under different activities. The activities/vocations were identified particularly to benefit people below poverty line.

Integrated Rural Development Program was implements to assist low income groups and encourage them to take up productive activities for sustainable Growth. This was a comprehensive program with added advantage of financial subsidy to the beneficiaries.

Another scheme namely ANTYODYA YOJANA was also implemented particularly to benefit the poorest among the poor. This program was highly subsidized to minimize the debt burden to the poor.

RBI also introduced Differential Rate of Interest ( DRI ) scheme as back as in1971 which is still in vogue. Under this Bank all public sector banks are required to lend at least 1 per cent of their outstanding advances of previous year to the people living below poverty line at highly subsidized interest rate of 4per cent.

A concept of Self Help Group was also implemented to develop savings habits through thrift and to undertake group productive activities. To have wider reach to financial assistance, these groups were linked to banks.

Besides the above programs which basically aimed to the mass and particularly to the poor and downtrodden, there were good number of credit schemes implemented for providing self employment to the educated and uneducated youth.

The Regional Rural Banks were set up in 1975 with an exclusive aim to provide low cost credit and easy access to the rural poor by these banks which will operate in a limited area and work in the local environment.

The RBI created another banking tierviz. Local Area Banks just to extend financial help to micro entrepreneurs.

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) was launched in 2005. The study reports indicate great degree of mismatch between demand and supply across the regions/states. There are also reports and criticism on program's actual impact in view of massive leakages.

## The Missing links?

Though a good number of credit programs were implemented but desired results could not be achieved. Various studies conducted to assess the performance of such programs revealed the following;

Most of the programs were implemented through a targeted approach and banks were required to achieve the set targets. In the process the qualitative aspects did not receive due focus and desired benefits could not reach to the most needy.

The element of capital subsidy under different government sponsored programs had many leakages and gave scope for miss appropriation. The people (Beneficiaries) were more keen to avail the benefits of the subsidy element rather than taking sustainable productive activities.

Leave alone the basic education, banking education was much lacking which resulted in improper utilization of financial assistance.

The Extension staff supporting to government sponsored programs were not serious in their approach.

The banking staff by and large had urban orientation. The existence of branches in far flying places from the urban centers, lack of transportation and communication facilities, insufficient basic infrastructure at the work place etc also caused hurdles to the successful implementation of various credit schemes.

All this resulted in turning large scale non performing assets and banks had to have heavy write off swhich resulted declined in their profitability.

The financial assistance without proper linkages of inputs and marketing arrangements was also responsible to a greater extent for not achieving the desired results.

The concept of self help group could do little to develop savings habits and some of the groups even stated their ventures.

The low cost model of functioning of RRBs could not sustain for long as their operational cost reached equivalent to other commercial banks. Then the question of their viability became prime concern. This led to diversification their operations and a bit deviation from their main focus to rural development.

The idea of Local Area Banks could not pick up as desired. There are only few banks operating under this banner.

## The Model of Financial Inclusion:

Various research reports highlight financial inclusion as a key for growth and development of the economy in general and individuals in particular. While explaining the Global Findex Database 2014, Demirg-Kunt et al. (2014), it claims that 62 per cent of adults worldwide have bank account. This was just 51 per cent in 2011. Their study alsofindshighvariationsinaccountpenetrationbetweende velopedanddevelopingeconomies. Mankiw and Ball (2011) supports that developing inclusive financial system is an important component for economic development and progress. Campos and Dercon (2014) find relationship between finance and growth as casual and unidirectional from finance to growth. There has been number of studies ti indicate that financial inclusion have significant positive impact on economic development of individuals. On the other hand, there are good number of studies to show that lack of financial assistance can lead to poverty traps and inequality 9 (Banerjee and Newman, 1993; Galor an Zeira, 1993;BeckDemirg– Kunt andLevine,2007).

The financial inclusion can not be thought of in the absence of inclusive banking. Inclusive banking refers to delivery of financial services reasonably at a lower cost to the disadvantaged and low income groups who did not have access to the formal financial system. Shamika Ravi and Shruti Gakhjar (2015) in their papers suggests the success of Bank Rakyat Indonesia (BRI) in providing commercially viable financial services to the low income house holds that has several lessons for India. Explaining the financial inclusion, the Inclusive Finance Report 2015 by ACCESS states “the financial needs of the poor are basic-a safe place to save, credit for business farming, animal husbandry, emergencies, education, family needs and housing, remit funds to support family and business, life and medical insurance for protection against frequent exigencies they face and pension to support the matoldage.’ This certainly needed a comprehensive approach to tackle the problem of poverty in true spirit. The inclusion of hitherto neglected sections of the society to the banking system is the new model of inclusive finance. This model proposes the following strategies to bring financially excluded group within the ambit of formal financial system, Provide adequate banking services by offering a basic banking “no-frills”account. This account can be opened by the person belonging to low income group at zero minimum balance or with low balance.

RBI suggests to commercial banks to introduce General Purpose Credit Card(GCC) or small overdrafts to no frills account holders which enables the account holder to withdraw upto Rs.25,000 and operate this account as running account. The total credit provided as at the end of March 2014 under this category amounted to Rs.1097 billion to 7.4 million account holders. Thus, per account credit amounts to Rs.15582. there has been a significant increase in this figure as compared to Mach 2008 where per capita credit was just Rs.1802.

The model suggests appointment of a Business Correspondent (BC)who will act as an intermediary between poor people and the financial institution and ensure better relationship between the two.

The performance of BC will be monitored and they will be provided better training to create an awareness among the poor about the facilities being offered to no frills account holders.

Use of information technology has been emphasized to have easy and transparent transactions by the account holders under the scheme. In this direction smart cards have been introduced for opening of bank accounts and linking of banking transactions to mobile hand.

The social security benefits and other benefits extended by the governments will be routed through Electronic Benefit Transfer to prevent any kind of leakages.

RBI liberalized the policy of Bank branch and ATM expansion to have wider access of banking facilities.

RBI through its website has introduced project finance literacy to extend awareness about the banking schemes to various target groups.

Financial cum counseling centers have been set up which will provide free financial education and make the target group aware about various banking schemes and facilities.

## A comprehensive Approach: A policy initiative

To give a new dimension to the success of whole approach of inclusive growth, the government initiated a distinct approach something unique and much different from earlier approaches in the form of“Pradhan Mantri Jan Dhan Yojana” (PMJDY). The following are the features of new policy initiatives.

Keeping in view the low levels of bank penetration particularly in rural areas, the policymakers thought that each household in the country to have access to bank account. This has greatly facilitated the opening of bank accounts because the process made was simple without involving much complications and documentation. The bank accounts opened under the scheme come with RuPay debit card and also include accident insurance cover. RuPay debt cards are universal debt cards that aim to encourage entrepreneurial activity by liquidizing loan funds; essentially, it makes cash flow smoother and more transparent. This RuPay card scheme was conceived and launched by the National Payments Corporation of India (NPCI). Individuals whose accounts were opened before January 26,2015 have also been provided with a premium-free life insurance cover. There are several public sector and private sector banks taking part in providing bank accounts under the PMJDY. The special Benefits under PMJDY Scheme are;

## Receipt of interest on deposit.

Insurance cover of Rs.1 lakh in case 0 accident.
Zero balance requirement in the account.
Hassle-free transfer of money across India.
Under different government schemes will get direct benefit transfer in these accounts.
An overdraft facility will be permitted.
The account holder can have access to pension and insurance products.
A unique facility of an easy over draft up to Rs. 5000 is available.

A significant achievement of this scheme was that on the first day of the launch on August 28, 2014, over 1.5 crore accounts were opened in various banks. This seems to bean unprecedented record across the globe. The process of issuing RuPay debt cards was relatively slow as compared to opening of new accounts. This had an impact initially since operationally, the Rupay debt card and the bank account were separate processes; however, functionally, individuals required boths imultaneously in order to make transactions. According to reports as of

September 1, 2015, an amount of Rs. 23, 000crores were deposited in over 18 crore bank accounts within a year of the launch of the scheme. Further analysis indicates that out of these, nearly 11 crores were opened in rural areas, over 14 crores were opened through public sector banks and more than 3.2 crores in Regional Rural Banks (RRBs). The following table present the progress under the above scheme.

**Table: Pradhan MantriJan – Dhan Yojana**
(Accounts opened as on 01.07.2015, Figures in millions)

| | Number of Accounts | | | No. of Rupay Debit Cards | % of Zero Balance Accounts |
|---|---|---|---|---|---|
| | Rural | Urban | Total | | |
| | | | | | |
| Public Sector Bank | 70.7 | 58.7 | 129.4 | 120.4 | 51.7 |
| Rural Regional Bank | 25.1 | 4.4 | 29.5 | 21.2 | 51.53 |
| Private Banks | 4 | 2.8 | 6.8 | 6.1 | 48.53 |
| Total | 99.8 | 65.8 | 165.7 | 147.7 | 51.48 |

***Source:*** *GoI PMJDY Progress Report*

According to the report, nearly 55% of the accounts have zero balance. However banks are positive of breakeven in 2016.The pace of opening account is only the one aspect but there are many challenges which the banks will be facing ahead. Some of them that really matters include, creating demand for viable credit products, promoting habits of savings among the beneficiaries, linking digital mobile technology for smooth money transfer options to these accounts, speedy receipt of social security benefits etc. to effectively and efficiently implementation of the scheme, 3 more social security schemes were added to the PMJDY in May 2015. They are known as Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Atal Pension Yojana (APY). All the three schemes were simultaneously launched in 115 locations throughout the country aiming to provide alternative financial security alternatives for the poor.

## Mudra

In another major policy initiative, Micro Units Development and Refinance Agency (MUDRA) Bank was launched on April 8, 2015. The primary objectives of the MUDRA Bank are:

Regulate lenders and borrowers to bring stability to the microfinance system through regulation and inclusive participation and thereby regulating lenders and borrowers role.

Extending financial and credit support to Micro finance Institutions (MFI).

Introducing performance rating and accreditation system for MFIs to enable last-mile borrowers to evaluate and approach the MFI which is more appropriate.

To provide a framework for the borrowers to follow to avoid business failures and initiate corrective steps in time. MUDRA will also prepare guidelines to be followed by the lenders to recover money in cases of default without causing any harassment.

To extend Credit Guarantee Scheme for providing guarantees to loans being offered to micro businesses.

To develop an appropriate framework under the Pradhan Mantri MUDRA Yojana to ensure an efficient credit delivery system to small and micro enterprises.

MUDRA Bank has broadly classified borrowers into three segments: starters, mid-stagefinance seekers and next level growth seekers. Accordingly, borrowers have different kinds of loan facility such as:

Shishu: coverloans uptoRs. 50,000
Kishor: cover loansaboveRs. 50,000 and uptoRs. 5 lakh
Tarun: covers loansaboveRs.5 lakhand uptoRs. 10lakh.

To make this movement, more vibrate and practical, these are additional features added to the scheme like MUDRA Card, Portfolio Credit Guarantee, and Credit Enhancement etc.

**Payment Banks-** Small finance banks are known as Payment Banks are engaged in basic banking activities like accepting deposits and lending to under-privileged sections, particularly to small and marginal farmers, micro and small industries and unorganized sector entities and small business enterprises. They also promote payment and remittance services through channels. They also issue debit cards.

**The following are essential features of working of Payment Banks:**

The primary objective is to promote savings, supply of credit to small business units, marginal farmers, micro and small industries to speed up financial inclusion efforts.

The bank will engage in promoting basic banking activities of acceptance of deposits and lending.

The payment bank will extend 75 percent of its Adjusted Net Bank Credit (ANBC) to the sectors eligible for classification as priority sector lending (PSL) by the Reserve Bank. This apart, 50 percent of its loan portfolio should constitute loans and advance of up to Rs. 25 lakh.

The concept of promoting payments banks is another major step that will provide a leeway to strengthen to financial inclusion process.

**The comprehensive approach:** It is perhaps for the first time that a comprehensive approach and inter linkages have been established to help the poor and thus achieving the goals of financial inclusion in true sense. There are two important aspects that need to beanalyzed. One, extending finance without any support to productive projects will not serve the purpose. Over expansion of money will have adverse impact, the relationship may be non-linear as beyond a certain threshold (calculated to be above 100 per cent of GDP) finance is associated with negative growth (Berkes et. Al. 2012).Second, credit alone will not serve the purpose, there has to be perfect social security system to meet any kind eventualities. The Financial Inclusion in the form of new incarnation takes care of the important aspects to a certain extent. Having discussed the public policy formulation issues, let us also understand that implementation of policy initiatives also assumes more significance. This constitutes as an integral part public policy management. The implementation and monitoring process has to be perfect for success of the PMJDY. This requires all out efforts and concern from all the stake holders.

## Beyond PMJDY : a challenge

The credit to the poor has been a political concern for all the governments but with a different approach of gaining popularity from this segment. Further, certain policy decisions in the past have done more harm than the good in effectively helping this strata despite the fact that more than thousands of crore public money spent to resolve the issue. As discussed in the beginning of this paper, there have been several measures and strategies to tackle the issue of poverty in one way or the other. But the question arise if there was a genuine quest to effectively and systematically manage this crucial aspect at all levels. Another issue of importance is that the different governments have different approaches for the same cause, how legitimate it is?

Though it looks very lucrative to observe the initial progress of PMJDY in many aspects but this is only the beginning. The PMJDY per-se have different dimension and approaches in terms of focus of the program, integrated approach of credit, insurance and pension, inter-operability through RuPay debit card, clarity in role and remuneration of Business Correspondence (BC) etc. But there are many issues that goes beyond PMJDY and need serious consideration. Some of the pertinent issues that could be the part of an effective public policy are;

The commercial banks are stick with severe problem of non-performing assets(NPAs). According to Reserve Bank of India report-trends and banking 2014-15, the gross non-performing assets (GNPAs) increased to 6 per cent of bank credit and net non-performing assets (NNPAs) to a level of 2.7 percent. Since the commercial banks have been operating on commercial principles and dealing with depositors money, the increasing NPAs have direct impact on their efficiency. They can not afford this situation. There fore, they have to be vigilant and cautious to arrest the increasing trend of NPAs. In their efforts, the liberal approach in providing loans to weaker sections is bound to have some set back.

The commercial viability even for small and medium enterprises funding will receive priority while taking up such projects for financing by banks. It will equally to PMJDY beneficiaries. Therefore, there is an immense need to ensure the viability part of all the small ventures. This requires a professional and systematic approach to make the small units viable at all levels. The policy initiatives will need to highlight this aspect and take adequate care.

The problem of marketing linkages both, pre and post have persisted long more so in the rural areas. There are little efforts taken to provide marketing support to small and cottage units to procure raw materials timely and at the reasonable rates and at the same time needed arrangements to sell their product to fetch appropriate price for their products. There is a strong case for developing a mechanism where by the beneficiaries of PMJDY could contribute in real terms in the growth process of both, their own as well the country.

The majority of the people living below poverty line meet their livelihood and other means without any access to formal financial institutional system. They fulfill their credit requirements through unconventional sources at higher cost but without pains. This requires a look beyond PMJDY.

The experts on rural credit delivery system suggest that there should be least regulations. The RBI has ambitious plans for banks and expects that banks to play an important role. The important challenge will be to create high volume of transactions at low cost. This becomes more crucial for IT related services.

The entire success of PMJDY is very much depends on technology based financial service to the remote rural areas. The present situation of IT infrastructure at these places is very poor. To fill this gap will bean uphill task.

There are few other organizations supporting financial inclusion initiatives like NABARD and SIDBI. They have formulated special schemes and active support to support this cause. All these efforts need to be translated into actual results on the ground level rather than remain as a package alone. The benefits have to be percolated down the line to reach the deserving beneficiaries.

The most important requirement for success of this mission is not only to create sense of awareness among the beneficiaries but also enthuse and motivate them to come forward to take up the required vocations through the available credit and become self sufficient to stand at their own in a course of time. The need for positive motivation to utilize all the resources is very much desired.

The quality and efficiency of services in handling the pension plans, insurance schemes in case of need will also be an effective tool for the success of Financial Inclusion.

The policy initiatives are very enthusiastic on the health insurance of the poor and there are adequate arrangements in the scheme to this effect. However earlier studies (Ravi & Rai 2011) reveals limited understanding of health insurance that results in much lower claims to coverage ratio for this segment. This requires a pro-active approach on the part of insurance firms.

## Conclusion

India will be celebrating 70th anniversary of independence in 2017. The poor and poverty was perhaps the last priority to be talked about in pre-independence era except that the segment was subject to exploitation. This remains one part of the story. However, another tragedy is that there have been lot of experiments right from the independence in the direction of eradicating poverty. We are predominantly an agriculture economy and the country is supposed to have best talents and experts in terms of policy makers. We have experimented number models in the past to bring this segment of the society above the poverty line but we are still in process of experiments. The experiments are of course needed but the question is how long? The model of Bangladesh has become so popular that other developing economies have been adopting.

The existing policy and initiatives to launch PMJDY, if implemented in true sense with all commitment and active participation at all levels may prove a mile stone and a turning point in the growth process of the Country in general and economically weaker sections in particular. The challenges are many that could be tackled through an effective public policy management mechanism to achieve the great mission of Financial Inclusion.

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