Unleashing Growth Through Empowerment

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The efforts by the Government are beginning to yield results but there are many challenges which need to be addressed in order to effectively achieve higher growth by ensuring universal access to finance

The Government of India since May 2014, has been making efforts to reinvigorate India and help growth reach its potential of above 9 per cent. Since then, in a series of measures that Government of India announced, the focus has been on development-oriented policies to achieve higher rate of growth. The country, under foreign rule for nearly eight centuries, suffered from depletion of resources and lower rate of per capita economic growth. In 1951, 53 per cent (200 million) of population was below the poverty line and India was considered a very low income country. The post-independence era witnessed adoption of mixed pattern of society where socialist planning was pre-dominant. Consequent to a series of initiatives and policy measures, some due to severe crisis, India was recognized as an important emerging market economy by early 2000s. Since 2015, India is the fastest growth economy of the world which successfully reduced poverty levels, despite revised and higher benchmarks, to less than 30 per cent of the population. And now, it is projected to record a growth rate of 7.3 per cent and above for the next 5 years. In the fascinating growth story of India, which is unprecedented in economic history of transition of economic growth, the share of agriculture shrunk and that of services increased rapidly while industry continued to stagnate around 25 per cent. To ensure a steady state of growth, with a strong foundation, it was important that the industrial base was strengthened, and therefore, the Prime Minister on assuming office in May 2014, immediately launched a campaign of "Make in India".

To achieve growth, and ensure build-up of industrial base, availability of finance, besides many other factors, is the most important. In this context, in the initial stages of development, the banking system plays an important role and therefore, efforts were made to not only establish a network of banking institutions, but also ensure that banking penetration is high and that financial resources are easily available to citizens who require them. Then, there is also a need to create an eco-system where, in addition to financial resources, there is ease of doing business and availability of hand-holding when required. The government, after ensuring availability of bank accounts under the Prime Minister's Jan Dhan Yojana (PMJDY), announced other initiatives like MUDRA Bank, Start-up and Stand-up India, and Atal Innovation Mission in a well sequenced manner.

It is pertinent to recognize that, though India is already a fastest growing economy in the world and possesses a very young population,

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demographic dividends are yet awaiting to be tapped. India needs to generate 11 crore jobs in the non-farm sector over the next decade as nearly two-third of India's population would be of working age by then. India's workforce is expected to swell to 1 billion by 2022 and it needs to be gainfully employed to avoid any social unrest due to unemployment. In the initial years of planning, after independence, the Government was primarily responsible for absorbing the increasing work force while in the later years, the private sector started contributing significantly. Still, by 2012, more than 90 per cent of the workforce was in the informal sector. But in the future, to provide jobs to nearly 11 million workers annually, job creators and entrepreneurs, and not job seekers would be most required.

Role of Banks

To ensure a steady growth, a robust financial system is necessary, especially banking, to facilitate efficient allocation of resources from savers to investors with productive investment opportunities. The banks undertake asset transformation whereby, a depositor can place resources in a bank and the bank, in turn, can lend to the market. Banks can also help reduce poverty in an economy through facilitating growth and by providing universal access to financial services. An ineffective financial system also exacerbates income inequality among the poor as it keeps capital from flowing to wealth-deficient entrepreneurs.

To ensure widespread availability of banking finance, especially in rural areas, State Bank of India was nationalized in July 1955. To address the apprehension that a few business houses might acquire control over the country's banking assets through banks, and to achieve economic growth with social justice, the Government nationalized 14 commercial banks in 1969, and 6 more banks in 1980. The Indian banking system underwent a structural transformation since then and authorities were successful in directing substantial amount of credit to the agricultural sector, micro, small and medium enterprises, and industry. The Reserve Bank of India (RBI) and National Bank for Agriculture and Rural Development (NABARD) vigorously pursued financial inclusion to provide access to banking services to excluded sections of society.Despite these measures, Census 2011 revealed that, in India, out of 24.7 crore households, only 14.5 crore (58.7 per cent) households had access to banking services. In rural areas, out of 16.8 crore households, only 9.1 crore (54.5 per cent) were availing banking services.

PMJDY was successful in opening 21.7 crore accounts by April 27, 2016, a quantum leap when compared with an outstanding number of 122 crore existing accounts held in all commercial banks on March 31, 2014. It is noteworthy that 17.9 crore accounts have been issued Rupay cards, 9.7 crore are Aadhaar seeded and 83.6 percent are operational.

Therefore, in August 2014, Government initiated PMJDY which aimed at ensuring universal access to financial services viz. banking and deposit accounts, remittances, credit, insurance and pension in an affordable manner. PMJDY was successful in opening 21.7 crore accounts by April 27, 2016, a quantum leap when compared with an outstanding number of 122 crore existing accounts held in all commercial banks on March 31, 2014. It is noteworthy that 17.9 crore accounts have been issued RuPAY cards, 9.7 crore are Aadhaar seeded and 83.6 per cent are operational. The public sector banks accounted for 20.9 crore accounts of which 12.8 crore were in rural areas. The largest number of accounts were opened in Uttar Pradesh (3.3 crore) followed by Bihar and West Bengal (2 crore) each. The most important fact is that more than 95 per cent of households have access to banking facilities after this initiative.

PMJDY is also included in JAM number trinity, i.e. Jan Dhan Yojana-Adhaar-Mobile Number, which focuses on providing support to poor households in a targeted way. Technological developments and standardization of procedures, under JAM, can help in availing banking services, including loans, from mobile phone, without the need of visiting a bank branch.

Mudra Bank and Social Security Schemes

On April 8, 2015, the Government of India introduced Micro Units Development Refinance Agency (MUDRA) Bank (MB) to focus on providing credit to small entrepreneurs. There were nearly 6 crore enterprises, mostly individual enterprises, running small manufacturing, trading or service business and only 4 per cent of such units received institutional finance. MB, with a focus on micro sector having financing requirements of up to Rs.10 lakh, will act as a regulator and a refinance institution for micro-finance institutions which lend to very small units to help them develop. MB would help in preparing policy guidelines, as well as enforcing client protection principles so that small scale enterprises are not cheated to pay more than what is the standard rate prevailing in the country.

On May 9, 2015, the Central Government extended social security to masses through three schemes, to be operated through banking accounts - Atal Pension Yojana, Jeevan Jyothi Bima Yojana and Suraksha? The extension of these products will ensure higher business volumes to the banking industry and help in making financial inclusion commercially viable.

Stand-up and Start-up Initiatives:

The Prime Minister, most recently in April 2016, launched the Stand-up India programme to promote entrepreneurship especially amongst the deprived sections of society and women, providing loans in the range of Rs.10 lakh to Rs.1 crore. Earlier, in the Union Budget, the Government had announced a series of measures to encourage and strengthen Start-ups in India, allocating resources, initiating skill programs, providing tax concessions, and facilitating ease of doing business. The Budget announcements and later developments aimed to strengthen the Start-up initiative launched still earlier in January 2016 to take India to the much needed fast-forward 'job-creation' mode.

Challenges

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An issue of Interest Rates- It needs to be recognized that though money lenders charge high interest rates, borrowers tend to go to money lenders ignoring a branch of a commercial bank, even if it is closer. Therefore, there is a need to study reasons as to why the money lender is persistently successful despite high interest rates. There is a probability that it may not just be the interest rate that is a factor that influences borrowing decisions. After all, historically, according to literature, Chanakya's interest rate structure was risk-weighted, and the rate of interest would increase with the risk involved in the borrower's business. Illustratively, interest rates that prevailed in ancient India were 15 per cent per annum for general advance while traders were charged a rate of 60 per cent. If the goods were to pass through the forest, the trader had to pay 120 per cent while those engaged in export and import business had to pay 240 per cent per annum.

Financial Inclusion - To improve operations and increase transactions in new accounts opened under PMJDY, there has to be wide variety of instruments to inspire confidence and create an eco-system which encourages banking. Factors such as lower income or asset holdings; lack of awareness about financial products; high transaction costs; and products which are not convenient, perceivably unaffordable and inflexible, and not customized for rural and unbanked population, are major barriers for gaining access to the financial system.

To ensure the reach of banking activities at the door steps of rural and unbanked people, probably more ATMs are required. Illustratively, it needs to be noted that money lenders are generally less than 5 minutes away, while commuting time to a bank is significantly more, as less than 50, 000 villages out of total 6 lakh villages, have a bank branch.

MUDRA Bank - It will require a substantial change in the mindset of commercial bankers to lend to micro enterprises, especially those activities covered under MB. The need is to sensitize bankers about the requirements of micro units and make schemes friendly for extension of credit to micro sector.

Stand and Start-Up Initiatives - To strengthen Stand-up and Start-up initiatives, there is need to have an eco-system to create entrepreneurs. India, now needs to consider world-class institutes and courses on entrepreneurship – probably setting up of Indian Institute of Entrepreneurship on lines of IITs, IIMs and agriculture universities. Also, emphasis of educational policy could now shift to setting up more world-class colleges, across India, specializing in commerce, law and business studies.

There is an urgent need to address the issue of shortage of employable labour in the country. According to the Government's own analysis, of the 12 million university and technical college graduates produced annually, only 10 per cent have skills needed to join the workforce.

There is a general aversion to risk-taking and skepticism towards entrepreneurship amongst family members, friends and even teachers. Further, in the Indian value system, tolerance of failure is low but in Silicon Valley, in contrast, angel investors are more comfortable funding entrepreneurs who have at least failed in their maiden attempt and preferably two. But to help in risk mitigation, a fallback mechanism is necessary, and therefore, the Government could consider some special form of social security or insurance for entrepreneurs who fail in their adventures.

To create a conducive eco-system for entrepreneurs to flourish, faster Government approvals and more incubators, could be helpful. Illustratively, since 1982, only 500 start- ups were promoted annually in the existing 110 incubators and only 40,000 technology jobs have been created since then. And finally, to nurture entrepreneurship, provide mentorship and share experience, dedicated channels on television and radio, similar to agriculture, could also be considered by the Government.

Conclusion

India is a fast growing economy with a very young population. The demographic dividend can only be availed if there are sufficient opportunities to grow. The Government, in the last two years, has been making efforts to not only provide banking facilities universally, but also to create conducive environment for self-employment and growth. Consequently, empowerment of youth is expected to help India achieve its growth potential of above 9 per cent. This is necessary if India has to rise to be a global power in the near future. ❑

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