Effectiveness of financial inclusion programs: a case study of Jammu and Kashmir state

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Abstract: Financial inclusion aims at providing tools and resources to all who are capable; unrestrained access to resources and more particularly to funds enables such capable citizens to better themselves while simultaneously contributing to the economic progress of the country. Besides an economic imperative of financial access to excluded sections and the benefits thereof, the greater financial inclusion should also focus on financial awareness and customer protection. India, due to its huge diversity, in spite of the heightened efforts to deliver effective access to finance to all, has failed to provide the maintain uniformity in the provision of financial inclusion across regions. While all North-Eastern states seem to be neglected (or least pursued), Jammu and Kashmir remains the least penetrated states in the Northern Region. Against this backdrop, the present study attempts to examine the contours of financial inclusion within the state of Jammu and Kashmir and the progress that has been made so far.

Keywords: financial inclusion; alternative finance; financial literacy; inclusive growth.

Reference to this paper should be made as follows: Khaki, A.R. (2018) ‘Effectiveness of financial inclusion programs: a case study of Jammu and Kashmir state’, *Int. J. Financial Innovation in Banking*, Vol. 2, No. 1, pp.29–47.

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1 Introduction

The main goal of financial inclusion is to allow unhindered access of financial services and products to those who lack proper access to financial resources, especially underprivileged so that they can improve their living standards and simultaneously contribute to the economic growth and development. Financial inclusion in India is being pursued with a tremendous thrust as well as an inseparable component of the Economic Policies over last many decades. Financial inclusion in India is not a new dispensation; it has been pursued as integral to economic policies under different plans since the Independence. As a part of cooperative structure to provide access to credit for all, nationalisation of banks later was also intended to provide and expand the outreach of banking services to diverse and vast population. Reserve Bank of India (RBI) has been proactive in incorporating the spirit of financial inclusion in the basic structure of financial systems. On the recommendations of Khan Committee (2005), guidelines for expanding the outreach of banking services through Business Correspondent (BC) Business Facilitator (BF) model were laid down. The Rangarajan Committee on Financial Inclusion submitted their report in 2008, going down into the nitty-gritties of financial exclusion and putting together 179 recommendations to improve the nature of financial access in India (Khaki, 2014). Nachiket Mor Committee (2013) came out with an ambitious project of providing financial access to all through Aadhaar linked bank accounts and technology leveraged outreach across the country. Effective financial inclusion refers to the delivery of financial services at an affordable cost to the customer with no logistic barriers to access and sustainable to the provider (Thorat, 2007). Such access should be effectively made to those such as low-income groups and disadvantaged to enable them access to formal financial processes. Any barriers to such access that prevents poor and disadvantaged from access to financial system leads to and amplifies the geographical differences in levels of income and economic development (Leyshon and Thrift, 1995), a serious challenge for a country like India with a huge level of diversity, both geographically as well as culturally. Financial Exclusion typically arises, when formal financial institutions consider poor as too risky with no business proposition, eventually increasing the transaction costs on small loans and deposits (Armendáriz de Aghion and Morduch, 2000; Yunus and Jolis, 1999; Hermes and Lensink, 2007). The exclusion becomes more severe when poor and excluded are deficient in social capital and lack productive and sustainable investment opportunities (Khaki and Sangmi, 2016; Ghate, 1992).

In spite of the rigorous policy measures and banking sector initiatives, India severely lags behind with regard to financial inclusion even among peer emerging economies. Despite the tremendous growth in the banking industry in the past two decades, in terms of viability, profitability and ease to deliver, a vast segment of the population still remains with no access to formal financial services (Leeladhar, 2006). The number of Indian adults holding an account with financial institutions is just 50% against BRICS economies where 70% adults hold a banking account. Indebtedness to formal financial institution in adults is even worse, while indebtedness for BRICS economies was 10% in 2014, the levels of indebtedness for Indian adults is a dismal 6% for the same period. In terms of the use of technology in financial inclusion, there are only 19 ATMs per 100,000 of adult Indian population, the number which is comparable to Kenya only, when its counterparts have a much higher ratio for ATMs per 100,000 of the population, over 69 for South Africa and over 172 for Russia (Financial Access Survey, 2016). In terms of geographical penetration, India fares well against its peers while puts up a dismal show in terms of demographical penetration (see Table 1). In terms of the usage of debit cards, in 2014, the usage has been dismally low in India when compared with its peers, comparable only to Kenya and Indonesia; and the payments made through electronic platform are even lower, with just around 2% transactions performed over electronic platforms (World Bank RBI Annual Reports 2011–2012). A snapshot of data on select indicators of financial inclusion for select countries is presented in Table 2.

Table 1 Geographic and demographic penetration of banking services in selected countries

	Geographic penetration		*Demographic penetration*	
Economy	*Automated teller machines (ATMs) per 1000 km^2*	*Branches of commercial banks per 1000 km^2*	*Automated teller machines (ATMs) per 100,000 adults*	*Branches of commercial banks per 100,000 adults*
Brazil	21.82	3.957	114.00	20.673
China	92.32	10.212	76.37	8.447
Germany	246.43	28.602	121.10	14.056
India	61.88	42.545	19.71	13.549
Russian Federation	12.63	2.408	172.44	32.877
South Africa	22.21	3.366	69.28	10.499
UK	291.32	NA	131.59	NA
USA	NA	9.362	NA	32.872

Source: Financial Access Survey (2016)

Furthermore, even when the emphasis is being laid on Electronic Benefit Transfer (EBT), and so much is being boasted about the accomplishments, the ground reality is only 3% of the rural population received their wages directly into their accounts in 2014. Failure to implement EBT coupled with sluggish pace of Aadhaar worsens the situations even more as over 40% of accounts did not witness any movement during 2014. Government to Person (G2P) payments are at a miserable low of 10% which is the lowest among its peers, and thus brazenly defeats the basic objective of financial inclusion (Mohanty, 2015).

The regional disparity with regard to the use and provision of financial products and services is also huge with almost all north-eastern states and Jammu and Kashmir in the north witnessing the least penetration. In spite of a big jump in financial access from 2006 to 2015, a significant fraction of the population still remains excluded due to diverse set of factors such as huge reliance on traditional banking model, topographical difficulties in extending reach, reluctance of banks to open new branches, etc. (Khaki and Sangmi, 2012). Noteworthy to mention here is that Jammu and Kashmir has the lowest banking penetration as measured by the number of branches per thousand square kilometres as indicated in Exhibit 1.

Against this backdrop, the present study is aimed to achieve the following objectives:

1 to examine the various financial inclusion initiatives taken in the state of Jammu and Kashmir

2 to assess the effectiveness and the progress of financial inclusion in the state

3 to suggest, on the basis of results, steps that should be taken to improve access to finance in the state.

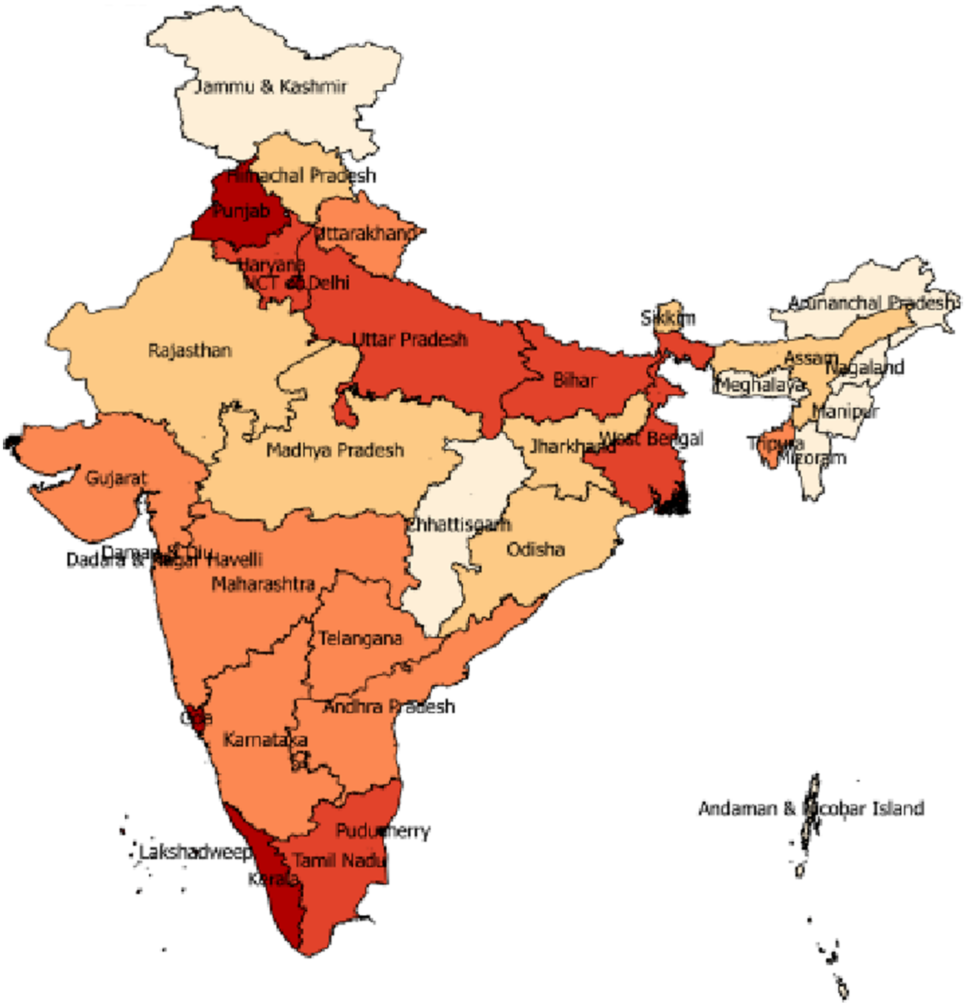
Table 2 World Bank's FINDEX – select indicators on financial inclusion – 2011 (proportion of population of age 5+)

Indicator name	*USA*	*UK*	*Germany*	*Russian Federation*	*Brazil*	*China*	*India*
Credit							
Loan from a financial institution in the past year	20.1	11.8	12.5	7.7	6.3	7.3	7.7
Loan from a financial institution in the past year, income, bottom 40%	17.6	11.1	12.3	6.3	3.5	7.7	7.9
Loan from a financial institution in the past year, income, top 60%	22.3	13.2	13.7	8.7	8.2	7.0	7.5
Loan in the past year	44.6	28.8	25.3	31.9	23.8	29.4	30.6
Loan in the past year, income, bottom 40%	45.1	28.1	25.4	32.1	19.7	32.4	35.7
Loan in the past year, income, top 60%	44.2	30.2	24.6	31.7	26.6	27.3	24.9
Insurance							
Personally paid for health insurance	NA	NA	NA	6.7	7.6	47.2	6.8
Purchased agriculture insurance (% working in agriculture, age 15+)	NA	NA	NA	3.7	11.2	7.2	6.6
Payments							
Checks used to make payments	65.5	50.1	7.2	5.2	6.7	1.8	6.7
Electronic payments used to make payments	64.3	65.3	64.2	7.7	16.6	6.9	2.0
Mobile phone used to pay bills	NA	NA	NA	1.7	1.3	1.3	2.2
Savings							
Saved at a financial institution in the past year	50.4	43.8	55.9	10.9	10.3	32.1	11.6
Saved at a financial institution in the past year, income, bottom 40%	32.1	43.5	55.1	8.8	5.8	18.3	10.4
Saved at a financial institution in the past year, income, top 60%	66.5	44.3	60.0	12.4	13.3	41.7	12.9
Saved any money in the past year	66.8	56.7	67.3	22.7	21.1	38.4	22.4
Saved any money in the past year, income, bottom 40%	51.5	56.2	67.1	18.9	12.1	23.3	19.4
Saved any money in the past year, income, top 60%	80.2	57.7	68.1	25.4	27.1	48.9	25.8

NA: Not Available

Source: World Bank RBI Annual Reports 2011–2012 (pp.88–92)

Exhibit 1 Number of branches per thousand square kilometre of geographical area (see online version for colours)



2 Research methodology

The data for the present study has been collected primarily from secondary sources. The secondary data was obtained from reports, journals, State Level Banker's Committee Reports, Census 2011, Economic Surveys and websites. More insights about the modes of operation and the major issues in financial inclusion were gathered through unstructured discussions with various Bank Executives, NABARD Officials, Business Correspondents, etc. The discussions regarding various strategies have been done in Srinagar only. Relevant banking functionaries from top and middle level management were consulted during these discussions.

3 Literature review

Theoretical approaches to the study of financial inclusion suggests that unrestricted access to finance with least obstacles to economic and financial resources and with no discrimination on the basis of size, class or location leads to creating a favourable environment for entrepreneurial activities at all levels. This participation in the economic activities from the grass root levels strengthens the economic profile of the country and thus leads to larger and sustainable growth rates. Sufficient research evidence is present in the existing literature confirming a strong relationship between financial development and economic growth (King and Levine, 1993; Beck et al., 2000; Beck and Levine, 2004; Levine, 2005; Klapper et al., 2006; Rajan and Zingales, 1998). Financial Sector Development is believed to promote pro-poor growth, and it impacts economies in ways that contribute to a reduction in poverty and inequality, and in promoting inclusive growth (G20 Financial Inclusion Experts Group, 2010; Thorat, 2007; Kim, 2016). Beck and Demirgüç-Kunt (2008) argue on building inclusive financial system for the economic development, they further argue that financial exclusion acts as a barrier to the economic development. It has also been argued that in countries having greater outreach, firms face lower obstacles thus suggesting the creation of a favourable financing environment as a prerequisite to the economic growth (Beck et al., 2007a, 2007b). Burgess and Pande (2005) evidences the redistributive nature of a bank branch expansion strategy pursued by Indian authorities led to a faster decline in poverty, especially in states with lower levels of initial financial development. It is evident from research that inclusive financial system significantly raises growth, alleviates poverty and expands economic opportunities. Financial inclusion does not mean mere quantitative or geographical expansion of bank branches, although it certainly is an important aspect of inclusion (Karmakar et al., 2011).

A critical dimension to effective financial inclusion is the role played by Information Communication Technology (ICT) by expanding the outreach; and the role of financial literacy in increasing the uptake and efficiency of those financial services. Financial literacy or financial education refers to the modalities adopted in deciphering the understanding of financial products, services and processes, such as savings, credit and investment (OECD, 2006). Financial education is most important and functions at the confluence of emerging new technologies and the financial inclusion practices (Xu and Zia, 2012; Diniz et al., 2013). Financial education thus becomes instrumental in promoting empowerment and alleviating poverty (Mayoux, 2010). Thus, financial literacy should be integral to any financial inclusion program in order to overcome barriers on the demand side of financial system. Financial inclusion should not only aim at making available financial goods and services without any discrimination, it must also facilitate an enabling environment to the socio-economically deprived sections of the society to contribute towards the overall growth of the economy. There is a strong evidence in research suggesting a positive correlation between financial education for the development of financial skills and the attitudinal changes among the underprivileged and excluded classes of the society (Cole et al., 2009; Servon and Kaestner, 2008; Sen, 1999).

Besides financial literacy, an enabling role is also played by ICT through the dissemination of knowledge and information. The use of ICT in banking is believed to bring a wide range of benefits to the society as a whole both social as well as economic (Balakrishnan, 2015). Parker (2013) demonstrated the effectiveness of ICT in expanding the outreach and utilisation of formal financial services. He shows that the use of ICT in EBT schemes have been found to increase payments, utilisation and convenience. ICT models for financial inclusion go beyond the use of electronic cards and mobile phones, and have been found to promote social and digital inclusion through a set of government-fostered social innovations and through linking financial products to digital identities (Pozzebon and Diniz, 2012; Mello, 2014; Hart and Christensen, 2002). Berger (2003) believes that the use of ICT in the financial institutions has significantly increased the productivity of the banks and financial institutions, as well as led to the improvement in the services provided by them. The gains for the banks have been wide-range like cost reduction of their back-office activities, economies of scale, and ease of delivery, etc.

Allen et al. (2012) has highlighted the need of reducing the barriers to the use of financial services, which may expand the use, scope and pool of users, as well as encourage existing users to increase the frequency. These efforts must be taken across the spectrum, integrating ICT and providing other support to the alternative delivery channels to bring about a desirable change (Mas, 2009; Faz and Moser, 2013; Diniz et al., 2012).

4 Results

Policy-makers in India have identified a number of initiatives for facilitating broader and effective access to financial services. These initiatives have been identified keeping in view the huge disparity both in terms of demography as well as topography across different regions. RBI has been undertaking financial inclusion initiatives in a mission mode combining strategies, mechanisms, regulatory guidelines and support measures to achieve a sustainable and scalable financial inclusion. A brief discussion on the policy framework of financial inclusion (the initiatives aimed at achieving greater financial inclusion) is presented below:

Regional rural banks are set up with an aim to provide credit and other financial services, specifically to rural micro-entrepreneurs, artisans, farmers and labours to develop agriculture, trade commerce and industry.

Commercial banks, a broad and competitive network of commercial banks has been established to provide a competitive infrastructure and processes with an aim to expand the outreach of financial services through cost effective products and mechanisms, sustainably.

Service area approach, this approach focuses on implementing credit plans by clustering villages and assigning them to a specific bank.

Kisan credit card scheme has been introduced with an aim to facilitate short term credit facilities to farmers, with minimal or no collateral requirements, to increase the productivity of small and marginal farmers.

Lead bank scheme has been designed to assign to a specific bank the responsibility of looking after the implementation and coordination of various government schemes aimed at removing income inequality, through access to credit plus services to excluded but potentially productive sections.

Financial innovation and ICT enabled financial inclusion: a number of initiatives have been taken under this plan to provide alternative channels and mechanisms by leveraging the broad ICT outreach for improving financial access. By making financial services convenient, affordable and accessible, the initiatives like mobile banking, business correspondent/business facilitators, bank mitras and micro-ATMs have witnessed noticeable improvements in terms of both sustainability and ease of delivery.

Financial inclusion plan (FIP) targets financial exclusion by asking banks to take concrete steps to expand the footprint of financial system. The plan requires banks to open new 'brick and mortar' branches at rural centres as well as through a comprehensive coverage enabled by ICT leveraged business correspondents/business facilitators and Bank Mitras.

Financial literacy: the initiatives under Financial Literacy Plan aim at reducing the demand side barriers to financial inclusion as well as increasing the effectiveness of financial access through financial education. The initiatives under this plan include setting up Rural Self Employment Training Institutes (RSETIs) and organising financial literacy camps.

Prime Minister Jan Dhan Yojana (PMJDY) is a comprehensive financial inclusion tool launched as a mission in 2014 to ensure access to financial services, viz., banking/savings and deposit accounts, remittances, credit, insurance and pension services at an affordable cost. The scheme provides for a comprehensive mechanism in which accounts are opened on reduced Know Your Customer (KYC) requirements with zero balance with provisions of credit, insurance and pension.

Consumer protection: Enabling effective financial access means that adequate consumer protection policies and measures are put in place to safeguard consumer interests and at the same time address the technical, service and security issues. The key elements of consumer protection plan are: fair practices, transparency, responsibility and fair treatment. Financial Literacy works parallel to consumer protection by educating customers about their rights and redressal mechanisms.

As earlier mentioned, a broader FIP allows for accommodating all the regions despite huge disparity in characteristics across Indian economy. Against this backdrop, the implementation of various financial inclusion initiatives and their effectiveness in J&K state, which differs from Indian mainland both in topography and in political status is presented below:

Snapshot of banking sector in the state

The banking sector in the state comprises of 2005 branches of 46 banks. The state has 24 Public sector Banks with 482 branches, 9 Private Sector Banks with 898 branches, 2 RRBs having 343 branches, 10 Cooperative Banks with 268 branches and 1 Financial Institution having 14 branches.

The total advances are Rs. 44,305.66 Crores against the total deposits of Rs. 99,264.61 Crores with a Credit to Deposit Ratio (C.D. Ratio) of 44.63 against the 50% benchmark for 2017, a five points decrease from the 2016 CD ratio. Priority sector advances account for almost 55% of the total advances, whereas the Below Poverty Line Population is 21.63% (Source: 103rd JKSLBC Report). The Banks have registered an achievement of 61% in financial terms against the targets set in the Annual Credit Plan

2016–2017 and 45% in physical terms (5% lesser than previous year achievements in financial terms and 1% lesser than previous years achievements in physical terms). The reasons have been attributed by the banking functionaries to the four month-long disturbances caused due to 2016 uprising. The credit and deposit composition of the State is presented in Table 3.

Table 3 Credit and deposit composition (as on March, 2017)

Bank	*No. of branches*	*Deposits*		*Advances*		*CD ratio*	
		2016	*2017*	*2016*	*2017*	*2016*	*2017*
Public sector banks	482	22,473.93	25,758.22	10,826.67	11,571.7	48.17	44.92
Private sector banks	898	56,620.56	65,834.34	27,961.71	29,405.2	49.38	44.67
Regional rural banks	343	3769.94	4191.17	1838.86	1852.03	48.78	44.19
Scheduled commercial banks	*1723*	*82,864.43*	*95,783.73*	*40,627.24*	*42,828.93*	*49.03*	*44.71*
Cooperative banks	268	3367.92	3480.88	1219.50	1225.21	36.21	35.20
Other financial institutions	14	0	0	501.51	251.52	–	–
Total	2005	86,232.35	99,264.61	42,348.25	44,305.66	49.11	44.63

Source: 103rd JKSLBC Report

4.1 The progress of financial inclusion in the state

4.1.1 Leveraging technology and EBT

Providing effective financial access throughout the length of the country is a gigantic task, where efforts of the banking fraternity should be dovetailed by the necessary structural reforms. While as the role of governments is central to the development of necessary infrastructure which harmonises with the banker’s efforts, non-governmental organisations also need to come forward to provide logistic and marketing support.

Corporate social responsibility (CSR) funds of telecom service providers should be set-up and utilised to develop infrastructure necessary to leverage the technology for the ‘last mile’ service delivery of financial products and services. A low-cost mobile-technology can enhance the effective reach and delivery of financial services (Balakrishnan, 2015). With over 900 million mobile phone users across the country, the potential for leveraging mobile phone networks as a delivery mechanism is huge and largely underutilised. Mobile banking platform for financial services delivery will also lead to increasing the efficiency of Business Correspondent (BC) model. The Nachiket Mor Committee suggests creation of Payment Banks and interoperable BCs to enhance the usage and penetration of the services while making BCs viable simultaneously. The committee has further recommended that all Government-to-Person (G2P) payments be made through Aadhaar seeded bank accounts. The committee is of the view that since the bottom quartile of the population has no or negative disposable income, it becomes imperative that financial access can be sustained through EBT Schemes only. EBT will encourage them to walk in to the formal financial institutions more and as such minimise the psychological barriers to financial inclusion on the demand side. With regard to the implementation of EBT in the state, out of 118,269 accounts received by all banks in the state, only 106,670 accounts have been validated, out of which 96% accounts have been validated by J&K Bank alone. Furthermore, out of 12,297,883 total operative Individual Saving Bank accounts, 6,886,037 (56%) accounts have been seeded with mobile number (103rd JKSLBC Report).

Another dimension of effective EBT implementation is Aadhaar integration of the bank accounts. With regard to the accomplishment of creating an integrated payment system which is linked to the Unique Id Aadhaar, the government has miserably failed to meet its targets. The central government has passed the Aadhaar (Targeted Delivery of Financial and Other Subsidies, Benefits and Services) Bill 2016, making it mandatory for routeing government payments through Aadhaar seeded accounts. Despite the statutory requirement of having an Aadhaar Id to receive government payments, the pace of enrolment in Jammu and Kashmir is sluggish, where out of 12.5 million citizens, 4 million citizens are yet to be enrolled. And despite the dismal performance of government with regard to Aadhaar enrolment, the union government has decided to close down all 344 Aadhaar enrolment centres in the State, which will have a severe impact on the enrolments. Pertinent to mention here that the biometric Aadhaar enrolment in the State started late, and thus the decision to close the enrolment centres in the state goes against the policy of greater financial inclusion, and also against the recommendations of Nackihet Mor Committee. Banks in the state are already facing difficulties in seeding Aadhaar identifiers into their accounts due to non-seriousness of enrolment agencies. As per the latest figures issued by the IT Department, J&K Government (Table 4), only around 87% of the records have been digitalised, 71.26% of the population has been enrolled while only around 66.58% of the population have been issued cards. And to add to the disappointment not all cards which have been issued have been delivered.

Table 4 Position of Aadhaar card enrolment in J&K state (as on 31 March, 2017)

Particulars	*Actual*	*Percentage*
Total population	12,541,302*	
Total enrolments	8,937,775**	71.26%
Aadhaar numbers generated	8,350,079	66.58%

*Census 2011.

**UIDAI website.

Source: 103rd JKSLBC Committee Report

Further, as indicated by the Table 5, by the end of March, 2017, only about 36% of the generated Aadhaar cards (3,025,388 out of 8,350,079 issued) have been successfully seeded, out of which 68% seeding comes from J&K Bank alone. Out of 2,248,551 bank accounts in Public Sector Banks, only 644,923 (28.68%) accounts have been seeded; for 2,248,551 accounts in Private Sector Banks, only 2,127,797 (25.78%) accounts have been seeded with Aadhaar, and 220,594 (18.26%) accounts out of 1,208,182 accounts of Regional Rural Banks have been seeded.

Table 5 Position of Aadhaar linked accounts in J&K state (as on 31 March, 2017)

Name of the Bank	*Total No. of customers (other than government and companies)*	*No. of Aadhaar seeded (linked) customers*	*Achievement* (%)
Public sector banks	2,248,551	644,923	28.68
Private sector banks	8,254,059	2,127,797	25.78
Regional rural banks	1,208,182	220,594	18.26
Cooperative banks	587,091	32,074	5.46
Total	12,297,883	3,025,388	24.60

Source: 103rd JKSLBC Report

From Table 3, it is clearly visible that while the share of accounts in Private Sector Banks is about 62%, a meagre 25.78% of the accounts have been linked/seeded, which is just around 70% of the total linked accounts. The dismal performance of seeding Aadhaar Number in the Bank accounts has thus resulted in the failure to effectively implement EBT Schemes in the State, and this failure can be attributed to the Banks and government functionaries equally. All the decisions with regard to Aadhaar seeding should be fine-tuned and aligned with other complementary policies and plans to see any success of achieving greater financial inclusion.

4.2 FIP of J&K state

4.2.1 Provision of banking services to villages with population below 2000

Under this plan, as reported in Table 6, 5582 villages have been identified as unbanked with a population of <2000. The villages were allocated to the constituent banks and owing to the efforts of all the banks, all 5582 unbanked villages have been covered. The prominent and worrisome feature of these achievements, however, is the over-reliance on Business Correspondent (BC) Model, which has been vigorously used by almost all the banks, more seemingly to camouflage. Out of a total of 5582 unbanked villages, only 168 villages have been covered through branches; whereas the remaining 5144 villages have been covered through infamous Business Correspondent Model. It has been observed that the coverage of unbanked villages is more skewed towards Business Correspondent Model and the ratio of Branches to BC (0.033) is dismally low. This over-reliance of dysfunctional BCs to camouflage for the banking presence in these unbanked villages is an area of serious concern. As per the plan, at least 279 villages which form 5% of the total unbanked villages should have been covered through brick-and-mortar model, only 168 have been covered through opening branches, an achievement of 60%. Furthermore, out of 168 villages covered through branches, 119 villages have been covered by J&K Bank alone, thus indicating a negligent attitude of other constituent banks in the State. This camouflaged tactic of using BC Model to represent 100% achievements experienced in the State raises serious concerns about the effectiveness of expanding financial infrastructure in the state.

Furthermore, against a target of 104 ‘brick and mortar’ branches set for opening a brick and mortar branches in villages with a population of more than 5000, the banking fraternity have exhibited a dismal performance by opening just three branches against a target 104 branches (103rd JKSLBC Report). The unwillingness of Banks and the tendency to relentlessly camouflage Business Correspondent Model as the last-mile delivery channel for the greater objective of financial inclusion is quite worrisome. In their pursuit for larger profits, the Banks have been constantly failing the spirit of inclusive financial sector by shying away from their responsibilities towards the last-mile leap to financial inclusion.

Table 6 Position of FIP coverage (villages below 2000 population)

Name of the FIP participant bank	*No. of villages allocated*	*Total villages covered*	*Mode of coverage*		
			Brick and mortar	*BC mode*	*Other modes*
J&K bank	3271	3271	119	3152	0
SBI	753	753	0	753	0
PNB	294	294	2	242	50
JKGB	1026	1026	41	985	0
EDB	238	238	6	12	220
Total	5582	5582	168	5144	270

Source: 100th JKSLBC Report

4.2.2 Branch expansion plan

Under the consolidated branch expansion plan, where brick and mortar branches are required to be opened at rural unbanked centres (Tier 5 to Tier 6), the progress achieved by the banks is a disappointment. Against a target of 343 branches for year 2016–2017, only 12 branches have been opened including 2 branches opened in villages with population <10,000. Against a regulatory stipulation of 25% (149 branches), the progress accounts for just 8% (12) achievement. The pace and seriousness of banks with regard to financial inclusion again is an indication of urban-oriented nature of banking industry in the State. The lackadaisical approach of the banks in this regard may also be attributed to the lack of complementary infrastructure required for setting up branches, which is making it more difficult and less attractive for the banks to venture into rural areas. The government, thus, has a responsibility to work on those infrastructural barriers which hinder the pace and effectiveness of financial inclusion in the state.

4.2.3 Pradhan Mantri Jan Dhan Yojana (PMJDY)

Financial inclusion received a fresh impetus by the launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) a comprehensive financial inclusion program launched on 28th of August, 2014. This program ensured of access to financial services by all, and timely and adequate credit to the excluded sections of the society to ensure financial stability, economic sustainability, and inclusive economic growth and social order.

The program from the very beginning witnessed an overwhelming participation from all the banks operating in the state, by activating its whole machinery including BCs and government agencies and functionaries to achieve its targets. The achievements were monitored on a weekly basis nationally, and in-house achievements were even reported and consolidated daily. Due to the relentless efforts of the banking fraternity and the allied government machinery, banks in the state opened 1,921,716 accounts and mobilised an amount of around 4.6 billion Rupees.

Table 7 Progress of PMJDY scheme (as on 31 March, 2017)

Bank	*No of accounts opened*			*No. of zero balance accounts*	*Aadhaar seeded accounts*	*Accounts with overdraft facility**	*Rupay cards issued*	*Rupay cards active*
	Rural	*Urban*	*Total*					
Public sector banks	209,192	133,172	342,364	75,374 (22.02%)	133,758 (39.07%)	2612 (11.53%)	286,245 (83.61%)	225,866 (78.91%)
Private sector banks	1,305,328	110,433	1,415,761	533,251 (37.67%)	222,553 (15.72%)	260 (0.29%)	1,113,129 (78.62%)	686,952 (61.71%)
Regional rural banks	117,362	37,822	155,184	54,688 (35.24%)	41,709 (26.88%)	2 (0.34%)	43,018 (27.72%)	8049 (18.71%)
Cooperative banks	6347	2060	8407	4585 (54.54%)	3022 (35.95)	0	1522 (18.10%)	1522 (100%)
Total	1,638,229	283,487	1,921,716	667,898 (34.78%)	401,042 (20.87%)	2874 (2.49%)	1,443,914 (75.14%)	922,389 (63.88%)

*Indicates achievement against eligible accounts only.

Source: 103rd JKSLBC Report

Almost 30 months from launching of this scheme, the state has very disappointing figures to present. By the end of March, 2017 (see Table 7), a huge number of accounts opened under PMJDY are dormant with zero account balances; the banks have a massive 667,898 dormant accounts out of a total of 1,921,716 accounts which amounts to 35%. Out of all accounts opened till March 2017, only 20.87% (401,042 accounts) of the total PMJDY accounts have been seeded with Aadhaar numbers, while as only 2.49% (2874 accounts) of the eligible accounts have been granted an overdraught facility. Of all the accounts opened so far, 1,443,914 (75.14%) Rupay cards have been issued from which almost 36% cards are inactive. The achievements of the Bankers with regard to PMJDY looks quite impressive when it comes to the numbers of accounts opened and cards issued, but it has failed to bring about the desired policy impact on the financial inclusion and the inclusive growth. The other social security schemes have not been able to gather any moss either; the enrolment in Pradhan Mantri Suraksha Bima Yojana (PMSBY) has been only 514,478, in Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) it is 236,019 and for Atal Pension Yojana (APY) the enrolled beneficiaries are just 29,343. Bank Mitras/Business Correspondent Agents were leveraged to play a major role in spreading financial literacy and educating people to enrol to the Social Security Schemes in far-flung or topographically difficult areas to achieve PMJDY objectives. Aadhaar enabled machines were provided to Bank Mitras and 1431 Bank Mitras were engaged, out of which only 1173 Bank Mitras are active and only 909 Bank Mitras have a working Micro ATM. 1031 Bank Mitras which is 68% of the total number of Bank Mitras engaged were also provided with inter-operable RuPay and AEPS compliant devices. These schemes were believed to alleviate poverty by providing unrestrained access to financial services, but such effect is yet to be seen and still debateable. Similar initiatives have been taken in the past as well, through no-frills account scheme and others, but those programs have miserably failed and the failure can be attributed to the political motivation behind those programs. PMJDY like previous initiatives hasn't either been able to make any tangible impact but has proven to be another tool to skew perceptions and reap political benefits; and is thus heading to be remembered as another failed government initiative. The problem with the developing world and more so with India is ignoring the cause and treating the symptom, and this is what has been continuously happening.

4.3 Financial literacy initiatives

Regulators and policy-makers around the world consider Financial Literacy as being central to Inclusive growth and equitable development. The terms financial literacy and financial education which are often used interchangeably, aim to promote individuals' financial and other skills in order to encourage a behavioural change for better resource management as well as for efficient coping strategies (OECD, 2006). In India, RBI has put a major thrust on promoting financial literacy as a mechanism to reduce the demand side barriers to financial inclusion. In 2009, RBI launched a Financial Literacy and Credit Counselling (FLCC) model with an objective to empower customers and to create aware citizenry by providing free financial education and credit counselling. In its National Strategy for Financial Education, RBI is of the view that effective financial inclusion can only be made achievable through financial literacy and education. Sufficient evidence is available in the literature highlighting a positive correlation between financial literacy and behavioural change for effective use of financial and economic resources (Cole et al., 2009, Servon and Kaestner, 2008). Numerous committees have been formed from time to time to look into the implications of financial literacy on the growth and development of the Economy. These committees have laid stress on the need to integrate financial literacy in the financial inclusion model. Skoch Committee on Defeating Poverty though financial inclusion has suggested a comprehensive model which puts greater emphasis on financial literacy and adoption of technology for achieving effective financial inclusion. The committee has further recommended that for sustaining financial inclusion, financial literacy has to be central to financial inclusion initiatives. The committee suggests that in order to improve access, institutions must implement financial literacy programs through campaigns educating service advantages, training Customer Service Centres (CSCs), leveraging rural governance structure and NGOs.

Table 8 Progress of FLCC (as on 31 March, 2017)

Bank	*No. of rural branches*	*No. of FL camps required to be conducted*	*No. of FL camps conducted during Q4*	*No. of target specific camps to be conducted*	*Target specific camps conducted during the quarter*
Public sector banks	152	462	264	2280	405
Private sector banks	502	1506	602	7530	453
Regional rural banks	274	822	146	4110	322
Total	928	2784	1012	13,920	1180

Source: 103rd JKSLBC Report

PMJDY goes a step further by creating a dedicated financial literacy cell at the rural branches of the banks. While an emphasis is being put on the importance of financial literacy, the Banks in the State seem to have adopted a casual approach. Against a regulatory stipulation of organising 1 Special Financial Literacy Camps each in all 928 rural branches, by the end of Q4, 2017, the banks in the state have organised only 1012 Camps against a target of 2784 Camps. This accounts for the achievement of 36% only, which is indicative of a lackadaisical approach of banking fraternity towards financial literacy. Furthermore, against a target of 13,920 target specific camps (5 Camps per month per branch), a dismal 1180 camps have been conducted, which account for 8.4% achievements. Most of the private banks seem to have concentrated their efforts on achieving larger market share in urban areas and rural centres, while leaving the peripheral servicescape unattended to as indicated in the Table 8. So far as the achievements under organising special financial literacy camps is concerned, Public sector banks have achieved 57% of their targets, 17.8% achievement for Regional Rural Banks, while as just around 40% achievement for Private Sector Banks. When it comes to Target specific financial literacy camps, the accomplishments are even more disappointing. Public Sector banks have conducted around 18% of the target camps, Private Sector Banks have conducted 6% against the target and Regional Rural Banks have conducted around 8% camps vis-a-vis their targets. This trend shown by the banks is a serious cause of concern, and needs to be thoroughly looked into, more so when Financial literacy is being considered as an important and inseperable constituent of the financial inclusion program.

5 Conclusion and suggestions

A lot of efforts are being put behind designing financial inclusion policy, to best match the requirements within the Indian landscape. The factors of geographical diversity as well as cultural diversity are as well being incorporated in the policy while designing channels for the delivery of those financial services to all without any discrimination and at an affordable cost. The development of models, innovation of financial products, and new mechanisms of the delivery are also aligned keeping in view the characteristics and the diversity of needs among Indian population. The gigantic task for the policy-makers is to orient and align different development policies with each other in order to achieve larger macro-economic objectives. A very important dimension, however, often ignored by the policy-makers is looking into the failure of the earlier schemes and the problems in implementation. The biggest tragedy, however, is that the failure of most of the developmental programs is due to political motivation behind the schemes and the widespread menace of corruption. As a result, the developmental programs are launched with a fanfare but end up as a burden on successive governments, as well as for the business entities linked to those programs. Also, Governments often find it difficult to enforce repayments, especially when borrowers are relatively wealthier, mistargeted or influential having strong political connections (Adams et al., 1984; Adams and Vogel, 1986; World Bank, 1989; Khaki, 2014). A classic example of such a failed and politically motivated programmed is Integrated Rural Development Programme (IRDP) launched in 1978, later merged with Swarnjayanti Gram Swarojgar Yojana (SGSY) and still seen as remnants in National Rural Livelihood Mission (NRLM). The tragedy here is, in spite of the failure of this scheme a fresh impetus was given, time and again, only to add burden on the State's exchequer as well as adding to the loan losses for the banks.

The state of Jammu and Kashmir is not immune to the vulnerabilities on account of political intervention and ineffective implementation. The results of the study clearly indicate that only after years of launching of these schemes, they are turning dead and inactive (PMJDY as a recent case). Besides political motivation, weak absorption capacity, unsustainable uptake, lack of complementary infrastructure, conflicting policies, banker's unwillingness, crony capitalism, lack of voluntary contributions, NGO absence in the banking landscape, etc., add to the problems faced in effective delivery of financial access.

The study clearly indicates that there is an unequal participation of the banks in achieving the targets under financial inclusion, while other camouflage through ineffective delivery mechanisms. Furthermore, wherever targets were achieved, the continuity and sustenance is missing there, as for example the looming inactive percentage of inactive PMJDY accounts. There is also a serious lack of interest from NGO's in the state of Jammu and Kashmir, which could have helped in increasing the absorption capacity and thus the sustenance of financial inclusion programs. A comprehensive FIP calls for sincere participation from all stakeholders to achieve the desired policy objectives of inclusive growth, sustenance and poverty alleviation.

In view of these results, the following suggestions are put forward to enhance the effectiveness of financial inclusion in the state:

- The financial inclusion should be aligned and rather incorporated with other developmental and social welfare schemes.
- A time bound implementation of the schemes must be ensured to keep the cost of the financial services low as well as to avoid conflicts with other projects.
- The support mechanism in the form of NGOs, marketing and logistics from the government, training and counselling, etc. must be strengthened to enhance the post-delivery usage of financial services.
- The financial inclusion program must be pursued without political motivation, as it may prove disastrous by skewing the perceptions as well as through misinformation. Also, the cases of crony capitalism must be identified and those responsible accounted for.
- A proper and scientific appraisal on the performance of these schemes must be conducted to identify free-riders and those who camouflage.
- Financial literacy centres must be established in coordination with the local governments (panchayats), where Village Level Executive must be identified to have sessions on financial literacy during regular panchayat meets to disseminate the knowledge about new schemes and also to encourage them on the use of financial services.

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