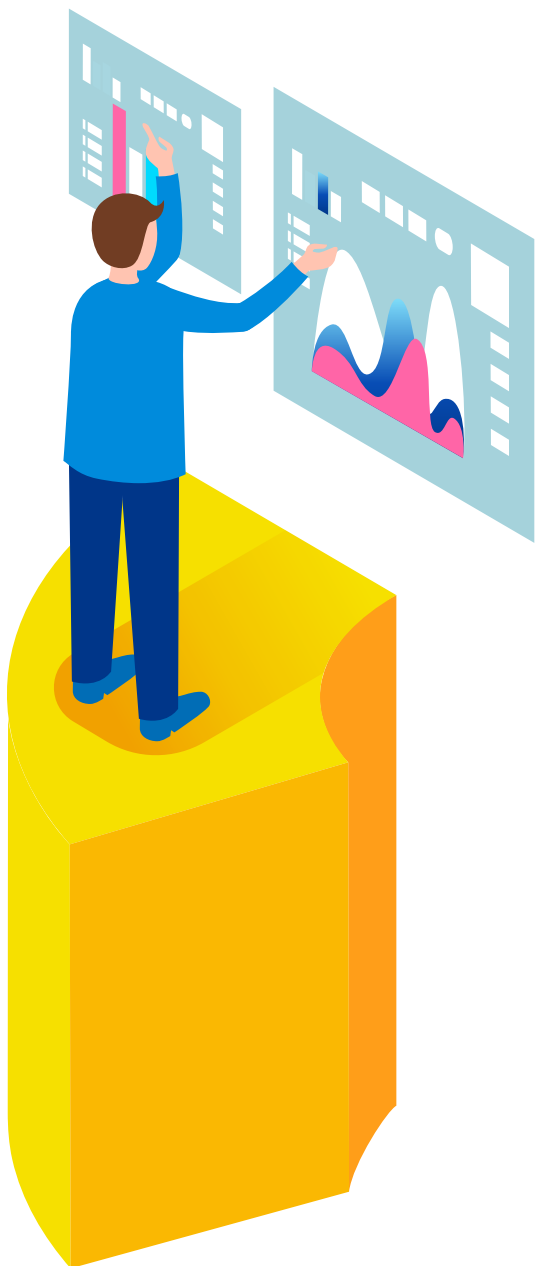


# The Role of PMAY(U) in Financial Inclusion in India - Research Article.





## INTRODUCTION

Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost (The Committee on Financial Inclusion, Chairman: Dr. C. Rangarajan, 2008). The essence of financial inclusion is to ensure delivery of financial services which include - bank accounts for savings and transactional purposes, low cost credit for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc ([www.rbi.org](http://www.rbi.org)) and therefore facilitate economically weaker section (EWS) and lower income group (LTW) to break the chain of poverty. The United Nations defines the goals of financial Inclusions as, to:

- access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
- sound and safe institutions governed by clear regulation and industry performance standards;
- financial and institutional sustainability, to ensure continuity and certainty of investment; and
- competition to ensure choice and affordability for clients.

The Government of India and the Indian banking industry have recognized this imperative and have taken several steps over the last five decades to promote an inclusive financial system.

The Reserve Bank of India has set up Khan Commission in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005-06). In that report RBI encouraged banks to make available a basic “no-frills” banking account to achieve greater financial inclusion. A pilot project in UT of Pondicherry, 2005, by K C Chakraborty (the chairman of Indian Bank) was the first featured financial inclusion in India. Mangalam Village in Tamil Nadu became the first Indian village having 100% financial inclusion where all households were provided banking facilities.

January 2006 was a milestone for financial inclusion in India when the Reserve Bank permitted commercial banks to make

use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions as intermediaries for providing financial services as business facilitators (BF) or business correspondents (BC) for commercial banks. 100% financial inclusion campaign on a pilot basis was also started. As a result Puducherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT ([www.rbi.org](http://www.rbi.org)). Reserve Bank of India has planned Aadhaar-linked bank accounts for all adults of India by January 2016 to meet 100% financial inclusion. It will greatly transform India by preventing the poor people falling into debt-traps of unlawful money-lenders, cashless transactions, elimination of poverty and corruption.

The delivery of financial services at affordable costs to vast sections of disadvantaged and low-income groups continues to remain a big challenge in our country. Illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states.

### Objectives

The objectives of this paper are classified under the following sub-headings-

- To understand the conceptual framework of Pradhan Mantri Awas Yojana (urban)
- To assess the role of the Pradhan Mantri Awas Yojana (urban) in financial inclusion in India

### METHODOLOGY

The present study is descriptive in nature and is based on secondary data collected from various sources i.e. books, journals, reports, as well as relevant websites.

### Study Area

Pradhan Mantri Awas Yojana (urban) as one of the integrated measures of Financial Inclusion in India.

### REVIEW OF LITERATURE

Dangi and Kumar (2013) said that for achieving complete financial inclusion and for inclusive growth, the RBI, Government, NABARD and the implementing agencies will have to put their minds and hearts together so that the financial inclusion can be taken forward. Thus, financial inclusion is not a short term goal: it is a big initiative and will itself evolve as the time progresses. To enhance financial inclusion initiative all stockholders have to work together to create a better business model which not only serves the need of the current economy but also it should build foundation for future financial inclusion plans ([Damodaran, 2013](#)). People in the unbanked areas do not fully appreciate why they need a bank account at all, or why loans from the formal sector are more useful than the informal sector. The advantages of a financially inclusive model are many-fold. Illustratively, unbanked and underprivileged could receive appropriate and timely payments for social benefit and employment schemes through the Direct Cash Transfer program (IIMB-WP N0. 474, 2014). An apparent increase in addressing the population of financial exclusion requires a holistic approach for the banks to put forth

the level of awareness on financial system, appropriate financial advice and affordable system of credit to kindle the whole importance of formal financial system management for which banks needs to enact strategies for reach in a cost-effective manner and it should also be less time consuming process ([Sundaram & Sriram, 2016](#)). Even as the Prime Minister's Jan Dhan Yojana (PMJDY) has helped a majority of poor households in India open bank accounts, there are many activities of financial inclusion still pending fulfillment. In urban territories there is huge number of urban poor who go unnoticed, unreported and unattached. Thus it is important to include them in the financial inclusion agenda ([Bano & Bajjal, 2016](#)).

### Problems

For the last five decades the Government of India and the Reserve Bank of India have been making constant efforts to promote financial inclusion as one of the important national objectives of the country. Government has taken various schemes like nationalization of commercial banks, building up bank branches in far remote areas, co-operatives and regional rural banks, introduction of mandated priority sector lending targets, formation of self-help groups, Basic Savings Bank Account Deposits (former no frill account), online banking and Pradhan Mantri Jan Dhan yojana etc. In spite of all these endeavour, Census 2011 revealed that only 58.7% of households are availing banking services in this country and in urban area only 67.8% of households have access to banking services.

### Analysis and Findings

#### Pradhan Mantri Awas Yojana (Urban)

The Hon'ble President of India, in his address to the Joint Session of Parliament on 9th June, 2014 had announced "By the time the Nation completes 75 years of its Independence, every family will have a pucca house with water connection, toilet facilities, 24x7 electricity supply and access." In order to achieve this goal, Govt. of India implemented a comprehensive mission - Pradhan Mantri Awas Yojana-Housing for All (Urban), 2015. The scheme will cover 4041 statutory towns as per Census 2011.

The Yojana aims to fulfil the housing requirement of urban poor including slum dwellers through following programme

- Slum\* rehabilitation of Slum Dwellers with participation of private developers using land as a resource
- Promotion of Affordable Housing for weaker section through credit linked subsidy
- Affordable Housing in Partnership with Public & Private sectors
- Subsidy for beneficiary-led individual house construction /enhancement. (source- PMAY- HFA Guidelines, 2016)

#### Main features of the Yojana are as under

- The mission will support construction of houses upto 30 square meter carpet area with basic civic infrastructure
- Slum redevelopment projects and Affordable Housing projects in partnership should have basic civic infrastructure like water, sanitation, sewerage, road, electricity etc.
- All houses built or expanded under the Mission should essentially have toilet facility.

- The houses under the mission should be designed and constructed to meet the requirements of structural safety against earthquake, flood, cyclone, landslides etc. conforming to the National Building Code.
- The houses constructed/acquired with central assistance under the mission should be in the name of the female head of the household or in the joint name of the male head of the household and his wife, and only in cases when there is no adult female member in the family, the house can be in the name of male member of the household. (source- PMAY- HFA Guidelines, 2016)

The Mission will be implemented through four verticals giving option to beneficiaries, Urban Local Bodies (ULBs) and State Governments. These four verticals are as below:

#### ***“In Situ” slum Redevelopment by***

- using land as a resource
- With private participation
- Extra FSI/TDR/FAR if required to make projects financially viable

#### ***Affordable Housing through Credit Linked Subsidy***

- Interest subvention subsidy for EWS and LIG for new house or incremental housing
- EWS: Annual Household Income up to Rs.3 lakh and house sizes upto 30 sq.m
- LIG: Annual Household Income between Rs.3-6 lakhs and house sizes upto 60 sq.m

#### ***Affordable Housing in Partnership***

- with private sector or public sector including Parastatal agencies
- Central Assistance per EWS house in affordable housing projects where 35% of constructed houses are for EWS category

#### ***Subsidy for beneficiary-led individual house construction or enhancement***

- For individuals of EWS category requiring individual house
- State to prepare a separate project for such beneficiaries
- No isolated/ splintered beneficiary to be covered.

Under the Mission, beneficiaries can take advantage under one component only. Out of the above, affordable housing through credit Linked subsidy will be implemented through Banks/ financial Institutions, under this Mission. The beneficiary can take advantage under only one component. Beneficiaries of Economically Weaker section (EWS) and Low Income Group (LIG) seeking housing loans from Banks, Housing Finance Companies and other such institutions would be eligible for an interest subsidy at the rate of 6.5 % for a tenure of 15 years or during tenure of loan whichever is lower. The Net Present Value (NPV) of the interest subsidy will be calculated at a discount rate of 9 %.

#### ***Pradhan Mantri Awas Yojana (Urban) and Financial Inclusions***

In India the financial inclusions primarily focused on three important needs- creating a platform for inculcating the habit of

saving money; providing formal credit facilities; plugging leakages in public subsidies and welfare programmes. The current focus of financial inclusion in this country is to ensure a no frill saving bank account (currently, Basic saving Bank Deposits, BSBD account) for every citizen. But financial inclusion means not only to have a mere bank account rather to get access to the various financial services, for example, getting affordable credit. Thus, Dr.Raghuram G. Rajan, Chairman, The Committee on Financial Sector Reforms, 2008, said that Financial Inclusion includes not only banking products but also other financial services such as insurance and equity products.

World Bank ‘Financial Access Survey’, 2011 revealed that in our country, financial exclusion measured in terms of bank branch density, ATM density, bank credit to GDP and bank deposits to GDP is quite low as compared with most of developing countries in the world. Census 2011 revealed that only 58.7% of households are availing banking services in the country and in urban area only 67.8% of households have access to banking services. For rural area the % of access of financial service is only 54.4. CRISIL - Financial Inclusion Index (Inclusix), 2013, which was based on three critical parameters of basic banking services namely branch penetration, deposit penetration and credit penetration disclosed that the index (on a scale of 100) increased from 35.4 in March 2009 to 37.6 in March 2010 and to 40.1 in March 2011. As per the report of the Committee on Financial Sector Reforms (2008), household access to financial services includes housing loans. In this connection Pradhan Mantri Awas Yojana (Urban) has played an important role in financial inclusion in India.

The Mission, in order to expand institutional credit flow to the housing needs of urban slum/ poor has implemented credit linked subsidy component as a demand side intervention. Credit linked subsidy is provided on home loans taken from banks by eligible urban slum/ poor (economically weaker section/ lower income group) for acquisition and construction of house. The credit linked subsidy will be available only for loan amounts upto Rs 6 lakhs and additional loans beyond Rs. 6 lakhs, if any, will be at nonsubsidized rate. Interest subsidy will be credited upfront to the loan account of beneficiaries through lending institutions resulting in reduced effective housing loan and Equated Monthly Instalment (EMI). Subsidy will be credited by the Primary Lending Institution (PLI) to the borrower’s account upfront by deducting it from the principal loan amount of the borrower. The borrower will pay EMI as per lending rates on the remainder of the principal loan amount. Beneficiary can apply for a housing loan directly or through the Urban local Body (ULB) or the local agencies identified by the State/ULBs for facilitating the applications from intended beneficiaries. In order to incentivize the designated staff of ULBs or NGOs a sum of Rs.250 per sanctioned application would be paid out of CLS Scheme funds payable through State Governments. Here we found that Awas Yojana has also fulfilled the aim of financial inclusion by involving NGOs as the business facilitators (BF) or business correspondents (BC) for commercial banks.

Housing and Urban Development Corporation (HUDCO) and National Housing Bank (NHB) have been identified as Central Nodal Agencies (CNAs) to channelize this subsidy to the lending institutions and for monitoring the progress of this



component. Jan Dhan Yojana/other bank account number and Aadhaar number/Voter ID card/any other unique identification details of intended beneficiaries or a certificate of house ownership from Revenue Authority of Beneficiary's native district will be integrated in the data base of Housing for All Plan of Action (HFAPoA) for avoiding duplication of benefit to one individual family. Therefore Awas Yojana has a direct connection with Jan Dhan Yojana.

The following diagram shows how Pradhan Mantri Awas Yojana has played an important role in Financial Inclusion in India-

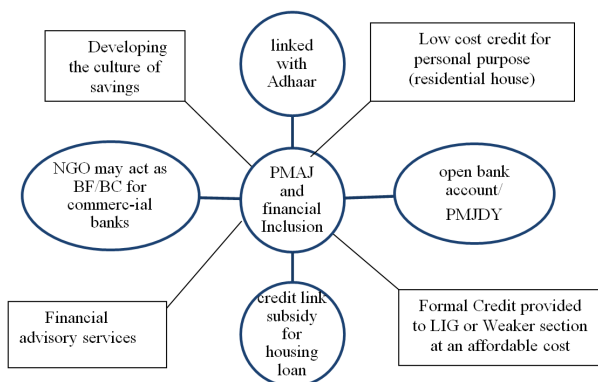


Diagram 1

An interesting fact in this yojana is that, priority is given to female to make the newly built/renovated house in her name. So it involves women empowerment by giving the right to women to acquire assets (house).

In cities many of the urban poor specially who are living in slum areas do not have any bank account or they don't get any financial service from financial institution. Credit linked subsidy would be available for housing loans availed for new construction and addition of rooms, kitchen, toilet etc. to existing dwellings as incremental housing. So to get subsidy to reconstruct/renovate their houses and to improve their lifestyle they must take the opportunity to get housing loans from this yojana. Therefore they have to open a bank account which will be linked with their Aadhaar number, must fulfill the aim of financial inclusion.

## CONCLUSIONS

For the last five decades one of the main aims of the government of India and Reserve Bank of India is to promote 100% financial inclusions in this country. The government and RBI have taken various measures from "no frill" account to PMJDY to establishing rural bank etc.

Due to poverty and lack of knowledge, a lot of Indian people both urban and rural are deprived off accessing financial services. Beside the rural financial inclusions, Govt is trying to make urban financial inclusions by taking several schemes. In this regard, Pradhan Mantri Awas Yojana can play a major role for urban financial inclusions. The credit link subsidy given in this scheme can act as a major tool. To get this subsidized loan the residents of urban slum has to open a bank account/ PMJDY with the help of Aadhaar card and thus fulfill the goal of financial inclusions in this country.

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