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A Case for Social sector Organizations to Impart Financial and Economic Literacy

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There are several reasons why greater competency in basic financial and economic literacy has become an imperative for India. In the literature, it is uncommon to link financial and economic literacy as is done here. But for India, such linking is essential.

A broad, generally accepted definition of financial literacy involves basic understanding of financial concepts, which is translated into behavior in making appropriate financial, credit, and investment decisions.

The challenge globally has been to translate this broad definition into understandable and relevant content, which is context specific; and to find sustained source of funding and skilled staff to communicate the content on a sustained basis widely, among the

policymakers, the decision makers in private and public organizations, and to the general public.

The economic literacy, essentially focusing on the ability to reason in economic terms by combining key economic concepts, such as transaction costs (costs involved in searching who to exchange goods and services with, in negotiating with the chosen partner, and in monitoring contracts entered into); opportunity costs (the cost of foregone opportunities, particularly of time); and the role of insurance in smoothing household wealth.

Imparting financial and economic literacy is a massive undertaking requiring focused efforts by many stakeholders spread across the country. This column focuses on the role of social sector organizations, such as trusts, foundations, social enterprises, could consider in imparting financial and economic literacy as an integral part of their operations.

Reasons for Imparting Financial and Economic Literacy

First, consistent with global trends, India has been exhibiting accelerated financialization of its economy.

As a result, Individuals, households, and even micro-firms

Need to have basic financial and economic literacy for their current and future wellbeing.

Second, India's widely acknowledged accomplishments in financial inclusion (see the World Bank's May 2018 Report titled The 2017 Global Findex and Fintech Revolution), and innovations in social protection have added to the urgency of more widely imparting basic financial and economic literacy.

India's digital economy is making rapid progress. Thus, in September 2018 alone, The Unified Payments Interface (UPI) recorded 400 million transactions, worth INR 600 billion.

Among the many, four recent schemes of the government led by Prime Minister Narendra Modi may be cited in this context.

It should be noted that these schemes have been recently launched, and they will evolve overtime, and therefore the task of imparting financial and economic literacy would be even more challenging.

The first is the Pradhan Mantri Jan Dhan Yojna (PMJDY), launched on August 14, 2014, to provide access to bank accounts, debit card, overdraft facilities, and accident insurance, main elements of financial inclusion. (<http://pmjdy.gov.in>)

As of September 26, 2018, according to the official dashboard, 328 million bank account beneficiaries have been covered, with deposits of INR 850 billion, and issuance of 246 Rupay debit cards. Accident insurance cover has also been provided. Benefits of government programs are being credited directly to the bank accounts of the beneficiaries.

There is a provision for promoting the financial literacy in the PMJDY. This is commendable as the need to promote financial literacy has been recognized and resources devoted to it.

But the efforts by government alone are not sufficient. Social sector organizations also need to give priority to promoting financial literacy, and thereby complement efforts of other stakeholders.

The second is the PMMY (Pradhan Mantri MUDRA Yojna). It was launched in April 2015 for providing loans up to INR 1.0 million to the *non-corporate, non-farm* small and micro-enterprises. MUDRA is an acronym for Micro Units Development and Refinance Agency. The loans are provided through various banks. The quality of loans is crucial to minimize any excessive burden either on the banks or on the government finances.

Since its inception, (up to September 30, 2018), the cumulative number of loans under this scheme have numbered 140 million, with cumulative disbursement of INR 6460 Billion. The simple arithmetic average per loan is INR 46,000. The mean however does not provide the dispersion around it, and wide variations in utilization rates across and within states.

The above figures however do suggest that huge number of individuals running small and micro-enterprises have received loans under PMMY. Given the strong business and entrepreneurial instincts of the Indians, some of the small and microenterprises benefitting from the PMMY can be expected to grow in both size, and contribute in a variety of activities and in geographical areas within the country.

There is accumulating evidence from various parts of the country that suggests that some beneficiaries are progressing towards achieving just such an outcome (see handle of @MudraCampaign managed by Department of financial services of the Ministry of Finance for the success stories).

The PMMY has increasing the urgency of imparting financial and economic literacy involving the following:

- Basics of the cash accounting method (with intuitive understanding of accrual methods of accounting where transactions are recorded when receipts and expenditure liabilities are incurred rather than when actual cash is paid out or received);
- Managing of business receipts and expenditures; dealing with lenders and creditors, including terms and conditions of repayments of loans;
- Time value of money, and
- How a business can obtain greater value from the goods and services they provide.

Huge number of businesses receiving PMMY loans has implications for the debate concerning the employment generation. This debate has unfortunately excessively focused on measuring changes in employment in the *formal sector*, and not on generation of

livelihoods.

It is the latter that has the potential to create positive dynamics for improving quality of living (ease of daily living), and quality of life (helping to meet the aspirations).

Over time, the contribution of PMMY to livelihoods generation can be expected to grow. The PMMY therefore needs to be better tracked, and analyzed more rigorously in a dynamic context.

The third scheme is the Pradhan Mantri Fasal Bima Yojna (PMFBY), launched in February 2016. (<http://pmfby.gov.in> (<http://pmfby.gov.in>)).

The PMFBY provides insurance coverage in the event of failure of covered crops due to natural calamities (such as floods which occur every year in different parts of the country), pests, and diseases. All farmers growing the covered crops are eligible to join.

The reason for any insurance is wealth smoothing.

Its awareness among farmers could therefore benefit farmers if the above events occur.

The fourth scheme is the Pradhan Mantri Ujjwala Yojna (PMUY), launched in February 2016. (pmujjwalayojna.com).

It aims to provide clean cooking medium, LPG, in the place of indoor pollution creating options such as firewood, coal, dung and others. Such pollution adversely affects the health of especially women and children.

Moreover women who have the primary responsibility to collect cooking fuel, often spend two to three hours a day in searching for it. The opportunity cost of time saved, and helping to utilize it to enhance household welfare, are an important part of economic literacy that need to be imparted.

The Role of Social Sector Organizations

The above analysis has provided a strong rationale for, and some of the key financial and economic literacy areas which need to be imparted, with the aim of them being reflected in decisions and in behavior of the households and of small and micro businesses.

For social sector organizations to undertake this task, they would need to begin with examining their work processes, staff assignments, and skills-sets.

In most such organizations, the staff to be given the responsibility of imparting financial and economic literacy would need to undergo relevant training first. This should not just involve the content suitable for a specific context, but also how to communicate it to the target audience.

Developing context-specific content and simple messages that can be effectively communicated would involve non-trivial fixed costs. The possibilities of obtaining Corporate Social Responsibility (CSR) funds could be explored.

An important part of the financial and economic literacy content would be for the staff to acquire skills in how to leverage Union and State government schemes could be leveraged to improve economic welfare of concerned

households and firms. The organizations would need specialized staff for the above task. This will have implications on recruitment, and on policies for staff development. The task of imparting financial and economic literacy may require a fundamental shift in the orientation of most social sector organizations. The shift from largely paternalistic approach to delivering amenities and services to also helping to empower households and firms, which is also the intention of the government initiatives, including those outlined above.

Such an organizational change would require leadership from the top management and the trustees of these organizations.

Concluding Remarks

There is a strong case for social sector organizations to help impart financial and economic literacy. To effectively play this role, organizational structures may need to be revamped, and skills-sets augmented. The approach of these organizations would also need reexamination from traditional paternalistic approach to also helping to empower households and firms, consistent with the intent of the government programs and schemes, including those outlined above.

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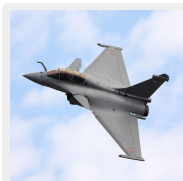
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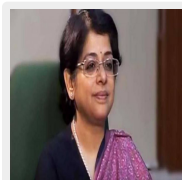


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