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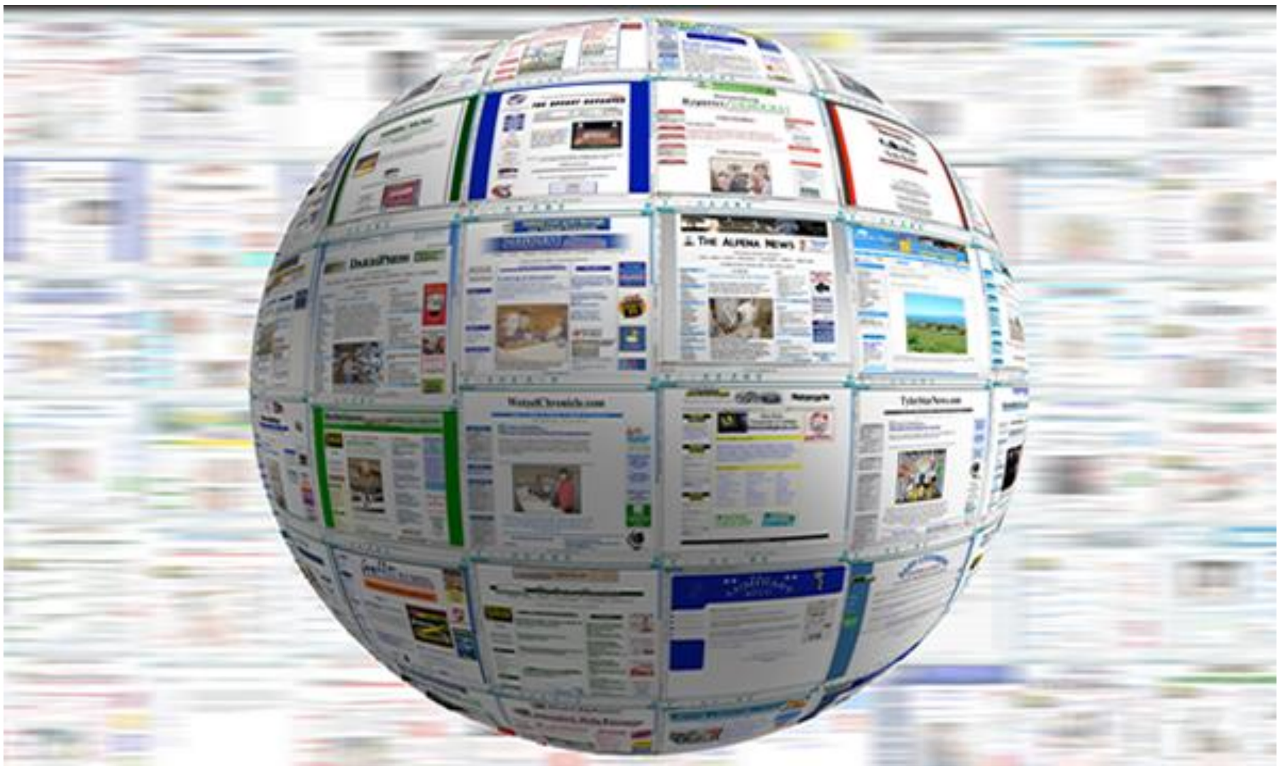

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आज का विचार (महात्मा गांधी के मूल्यवान वचन)

"सत्य के मुकाबले में कोई भी चीज रख दीजिये, सत्य सदा ही भारी होगा।"

1. The economic team in waiting

The Statesman: 24.10.2014

It is the economic team within the Cabinet that President Joko “Jokowi” Widodo is to announce soon that will certainly attract the most attention from the public because it is economic management that will directly affect the lives of the people and the business sector. With severely limited fiscal and monetary space, a threatening budget and current account deficit, and uncertain global economic outlook, it is clear that the economic road ahead is indeed bumpy, perilous and has many potholes.

The policy choices for the new government are quite tough as economic pump priming is impossible, while Bank Indonesia (BI) cannot be expected to ease its monetary policy soon with the US money-tightening policy looming on the global financial market. We are glad to know though that President Jokowi has affirmed right from the outset that he would appoint only professionals with impeccable integrity and competence to the economic portfolios. As the economic ills have rightly been diagnosed and appropriate policy prescriptions have been formulated by the almost two dozen working groups set up by Jokowi late in August, the economic team will be able to immediately start work, drawing the right scale of priorities and sequencing the policies based on the vision and mission promoted during the election campaign.Too much politics could cause a distortion of economic policies through the undue influence of sectional and narrow interests. Pressure from political parties, business lobbies, loud worker noise on

the streets and other devious forms of pressure could have a distorting effect on economic policy.

The point here is that some areas of economic policy are quite technical and their ramifications are so complex that decisions about them are better left to the professionals than to politicians and pressure groups. This brings up the issue of balance between efficacy and accountability. Therefore, it is the task of President Jokowi, as the CEO of the country, to nurture the best workable balance between the need to secure maximum policy effectiveness and the imperative of accommodating political realities. This requires a delicate balancing act. Since politics often becomes a game of five-yearly power-grabbing contests, factors that are absolutely crucial for sustaining development in the long run ~ such as institutions, human resource quality, environment and technology ~ tend to take a backseat.

2. Cleaning up the Ganga

Firdaus Jhabvala, The Statesman24 Oct 2014

Prime Minister Narendra Modi has announced that one of his administration's principal objectives is to clean up the Ganga. This is long overdue since this sacred river has been converted through years of neglect to a huge sewer that not only offends Hindus or the human species, but all Nature. The real costs of continuing with a sewer as opposed to a clean river are enormous. In a country like India, some 80 per cent of diseases are spread through mosquitoes, flies, fish, domestic animals, humans and birds that interrelate with waste water. Having a sewer run through the north of India permanently guarantees a diseased population in spite of many hospitals, doctors or medicines, as these vectors that carry diseases can pick them up easily in a waste water stream. The waste water is such a fine stew for bacteria and viruses that they evolve at a faster rate than we can imagine. For some species, only 15 minutes separate one generation from the next. So, a mosquito settling into the waste water is going to be picking up viruses that are qualitatively different from the ones the same mosquito picked up the previous hour! Then, they find humans and we have a severe health problem on our hands. So, the benefits of a cleanup far outweigh the costs. The difference is stark: either India becomes a clean and healthy country or stays filthy, sick and contaminated. Modi has understood the problem and has decided correctly to clean up India, starting with its national symbol, the Ganga.

But how do you go about cleaning up one of the biggest rivers in the world that has resisted previous attempts? Basically, humans have designed a Water Cycle that goes like this: First, water is got from Nature, made potable and sent to human users. Second, once used, drainage spews forth from houses, offices, factories, farms, etc. Third, all this waste water is sent to a Treatment Plant where it is treated and released back into Nature as clean water. In this Water Cycle, planning should start with the site of the waste water treatment plant, and then work backwards through waste water conduction, and agglomerating drainage. Potable water planning is an excellent proposition. However, in most countries such as India, drinking water is supplied without much thought to the rest of the Water Cycle, and therefore the planning of potable water supplies is made independently of the rest of the Water Cycle, and so has to be taken as a given, not a variable that the planner could, or should ideally, control.

In the rest of the Water Cycle, the most difficult part is Waste Water Treatment and is its Achilles' heel. There are over a dozen major technologies for waste water treatment. Which would be the best? For India, with lots of sunlight and generally high temperatures, it would be foolish not to take advantage of its natural endowments and use natural technologies, that is, technologies that are designed to replicate Nature, without using electricity, chemicals or biological additives.

This is not the way waste water treatment is done in the developed world mostly because natural technologies arrived in a mature form after these countries had already solved their waste water problems with older, industrial, twentieth century technologies such as Activated Sludge or Extended Aeration, technologies that do not even treat all of the sludge left over from their processes and are heavy on electricity consumption, which basically means that you may get to clean some of the waste water while robbing the air of oxygen and putting out carbon dioxide and other gases that affect the climate, costs that are usually enormous but not included in the calculations for deciding which technology is the most suitable.

In our own experience, a cost-effective and fast-growing Natural Technology is the Constructed (or Artificial) Wetland with Surface Flow. In this process, after solids present in the waste water stream have settled (primary treatment), the waste water passes through artificially built wetlands in which vegetation has been planted.

As the water flows through the wetlands, biomass, created by the waste water itself, is actively taking in the nutrients, contaminants and bacteria present in the waste water. So, in this phase of secondary treatment, as opposed to the hyperactivity of rival conventional technologies, Artificial Wetlands rely on the passivity of flow, letting Nature do its job. And Nature always does its job perfectly! That is the philosophical base and strength of this technology!

My colleagues and I actually implemented this solution in Mexico, in the town of Macultepec in the southern state of Tabasco. We designed, built, and then operated a treatment plant there for a population of 50,000 inhabitants (shown in the picture). This plant has complied with all federal regulations and requirements for over a decade. It also complies with RAMSAR, the international convention on wetlands. The cost, over the Life Cycle of 50 years of the plant, is under two rupees per cubic meter of treated waste water that is perfectly suitable to go into a natural wetland where shrimp and fish are raised for human consumption. We found that no other technology comes close in terms of cost and effectiveness. If used on the Ganga Project, because of scale, even the Life Cycle Cost mentioned may be improved upon. Here is a great opportunity for India to do another Mangalayaan, but now in the field of waste water.

Other benefits of the technology are that it can be easily indigenised, a prime goal of the Modi Administration, and very important for non-dependence in this critical area on foreign sources. Over 80 per cent of the cost of our projects are expended in a range of a few miles from the site of the project, since almost nothing needs to be imported from other countries, and actually very little from the big cities to the sites of our plants. The technology can be administered, operated and maintained by a dedicated mali, cutting off Indian dependence in this area on foreign firms, and creating more employment for local workers. And remember that it is very cheap because there are no mobile and imported parts! Actually, once properly established, Indian firms could export the technology to other countries, especially in the Developing World. Cleaning up the waterways of India is one of the most important actions any government can take, not only to provide clean drinking water, but also to combat life threatening diseases. It is indeed heartening that the Prime Minister recognises this.

After almost half a century of living abroad, I know I am still very much an Indian at heart. India gave me everything and even created me, and therefore I think it is my obligation to give back to India something worthwhile in return. I write this article because I know the subject and truly hope that India makes the right decision in this area. A wrong one would mean that the Ganga Project, very desirable as it is, would only produce more frustration and failure and not help to place India on the route to technological self-reliance, a key Gandhian concept of universal application for all countries seeking development.

The writer is Director, Texas Technological Development Company.

3. MSMEs - separating wheat from chaff

Arvind Panagariya, Business Standard: 23.10.2014

Do not look for easy interventions to help small-scale enterprises - carry out the reforms that will let them grow big

Realisation that the small-scale industries (SSI) reservation had failed to deliver on employment creation while impeding export growth led India to systematically roll back that policy beginning in 1997. While we have barely reached the tail end of the rollback with 20 items still remaining on the reservation list, the old view that small-scale enterprises are the silver bullet that will solve India's jobs problem has resurfaced. We are being advised to forget about labour lawreforms and labour-intensive manufacturing in the organised sector and count instead on micro, small and medium enterprises (MSMEs) in the manufacturing sector for good jobsforthemasses.

Possibly, these commentators feel exasperated by the hesitant response of large-scale firms to the removal of theSSI reservation. But the hesitant response is due to yet another layer of regulations embedded in Indian labour and exit laws. These regulations have continued to hold back entry of large-scale firms into labour-intensive sectors, such as apparel, footwear and electronic assembly. The apparel industry remains overwhelmingly populated by small, low-productivity firms with the result that much smaller Bangladesh and, recently, even tiny Vietnam have surpassed India as exporters of this product. Chinese apparel exports, of course, remain more than10timesthoseofIndia.

While not all firms have to be large for a country to succeed in the global marketplace, a significant number of them do. Small and medium firms usually flourish in sectors in which large-scale firms are flourishing. The latter operate in the global marketplace, where they must compete against the super-efficient firms. The competition in turn forces them to constantly look for cost-cutting technologies and management practices and seek high-quality inputs at competitive prices. Small and medium firms within the sector must then shape up as well either because they must compete with the large ones directly or because they are their ancillaries.

In manufacturing, India officially defines micro-enterprises as those investing Rs 25 lakh ($40,000) or less in plant and machinery. Small manufacturing enterprises are those investing between Rs 25 lakh and Rs 5 crore and medium ones those with investments between Rs 5 crore and Rs 10 crore. The corresponding categories for services enterprises are defined by investments in equipment of less than Rs 10 lakh, Rs 10 lakh to Rs 2 crore and Rs 2 crore to Rs 5 crore.

These wide investment ranges imply that the MSMEs constitute a highly heterogeneous amalgam. A key fact is that the vast majority of them are tiny low-productivity firms whose owners are not capitalists in waiting. For most part, they generate barely sufficient income for their owners to get by and, with rare exceptions, lack the ability to create good jobs.

The MSME censuses reveal that 95 per cent of all the MSMEs are micro-enterprises. With less than Rs 25 lakh invested in machinery and equipment, these enterprises serve local markets within a few kilometres of their location. Little is known of the quantity and quality of their output, or of their sales profiles since they are not registered even with district industry centres.

At the other extreme, few reform sceptics are even aware that many small and medium firms bear the full brunt of our pernicious labour and exit laws. According to ongoing research of economists Rana Hasan and Nidhi Kapoor of the Asian Development Bank, 10 per cent of the organised sector manufacturing enterprises officially defined as small employed 164 or more workers each in 2010-11. Among medium enterprises, 50 per cent employed more than 128 workers each in the same year. These enterprises must naturally comply with the full range of labour and exit laws principally aimed at large corporations.

Mr Hasan and Ms Kapoor also find that firms with less than 20 workers each employed 73 per cent of all manufacturing workers but produced just 12 per cent of the total economy-wide manufacturing output in 2010-11. That is to say, 27 per cent of all manufacturing workers in firms with 20 or more workers produced a staggering 88 per cent of the total manufacturing output. Well-paid jobs are concentrated in these overwhelmingly organised sector firms.

Findings from the Employment and Unemployment Survey of 2011-12 confirm this inference. According to it, workers in firms with less than 20 employees are paid Rs 1,581 a week on average. This wage is just a third higher than the modest Tendulkar poverty line for a family of five, confirming that the vast majority of the small firms lack the wherewithal to create well-paid jobs. In contrast, manufacturing firms with 20 or more employees pay a wage more than twice thepovertyline.

A key reason why small firms remain stuck at low productivity and, therefore, low wages is that they are too small to take advantage of modern technologies. In apparel, for example, Mr Hasan's and Ms Kapoor's ongoing work cites a variety of machines and tools available for pre-sewing, sewing and post-sewing operations. The costs of these machines are for the most part out of reach of the smaller firms. But the harsh reality is that these machines are essential for the manufacture of high-quality apparel in sufficient volume for just-in-time delivery that buyers in theglobalmarketplacedemand.

It is all too seductive to think that there are easy interventions that would turn micro-enterprises into manufacturing dynamos. The reality, however, is that 50 years worth of interventions on their behalf have not produced any tangible results. Each time we want to intervene yet another time, we tell ourselves that it will be different this time. But, alas, we unwittingly end up encouraging small firms to stay small and unproductive.

Support to the MSMEs should be about incentivising them to grow larger and competitive in the global marketplace. It should not be turned into yet another social programme that perpetuates weak and inefficient enterprises. If good jobs are what we seek, it is a folly of the first order to lean against the Schumpeterian process of creative destruction. At the end of the day, we will need flexible labour and exit laws for the success of not just large firms but small and medium ones as well.

4. Stop passing the buck

Anjuli Bhargava, Business Standard: October 22, 2014

If the government is so keen to provide connectivity to remote places in India, why doesn't it consider Air India for the job rather than the low-cost airlines?

There's been a lot of interesting and different initiatives from the new government (Swachh Bharat, Make in India, bidding adieu to **Planning Commission** and so on) but as far as aviation goes, the Narendra Modi government has only made some strange announcements till now - none of which I think will help the ailing airlines in any way.

The United Progressive Alliance-II had more or less decided to scrap what is popularly called the 5/20 rule (Indian scheduled operators can fly overseas only if they fly for five years domestically and have 20 aircraft in their fleet), a rule that can't be justified on any grounds. No country imposes such restrictions (on its own airlines that too). India, in fact, permits tiny airlines like Mihin Lanka (the president of the country's nickname is Mihin) to fly in and out happily, so this is something that will have to go whether the older, more established Indian airlines like it or not.

But what I was horrified to learn is that in some odd way, the Ministry of Civil Aviation wants to link the removal of this silly rule by imposing some regional connectivity (within India) guidelines on airlines. In other words, we will let you fly overseas; in turn, you fly within India to some newly-found uneconomic destinations from where, I presume, our Members of Parliament and politicians hail.

As I read the proposed new route dispersal guidelines, I understood and absorbed their full implications. The government wants the carriers to fly to 87-odd "incentive" destinations. These include Jogbani, Rupsi, Khowai, Raxaul, Lengpui and Keshod, to name a few. Yes, you heard me correctly. These are all apparently places in India that have at least some kind of airstrip, if not an airport. I admit to being quite ignorant about the geography of my own country but you could be forgiven, too, if you haven't heard of most of these. Now if they had just suggested Jharsuguda, Pasighat, Daporijo, Nanded, Pakyong and Deesa, one may still be able to justify their request...

Moreover, since most of these places don't really have the requisite infrastructure to land a Boeing or Airbus (even the narrow bodies), I think the government is in a way asking all the airlines - including those that run a single fleet operation - to induct a new, smaller aircraft. So airlines such as IndiGo and GoAir, who have nothing but their Airbus and Boeings, will be forced to induct an entire new fleet of smaller aircraft.

This is the most bizarre request since the low-cost model worldwide is acknowledged to work best when the airline sticks to a single aircraft type in its fleet. SpiceJet - which until recently was India's second largest private low-cost airline - has brought the Q400s in and anyone who knows anything about it can hold forth for a few hours on the kind of trouble SpiceJet is facing thanks to this decision. Apart from the fact that airlines in India have mostly been making losses and this will add to their woes (since none of these destinations will prove viable for a while), the guidelines ask airlines that are trying to make a success of the low-cost model to go against their very grain.

Now, coming to the government's objectives that, of course, are noble if not well thought out, I have an idea. If they are so keen to provide connectivity to these rather remote places (and these desires, at least in the past, have often been based on political influence and MP's insistence, rather than a genuine need to enhance connectivity for the country), maybe they should consider doing it through the national carrier Air India.

Let Air India - that anyway flies very limited international routes (often bleeding profusely) and makes huge losses on trunk routes - do this national service. It can do some intelligent sale-and-leaseback deals and exchange its large wide bodies for ATRs or whichever smaller aircraft takes their fancy. It can get rid of large numbers of its staff, several of whom have little to do, if truth be told. Pilots can be given Voluntary Retirement Scheme packages and take their endless complaints elsewhere. We - the taxpayers - can pay far less than absurd amounts like Rs 30,000 crore to subsidise the operations of this much smaller entity than we do for Air India today. And the government can - instead of abdicating its responsibility as it does with many other things like building airports, roads, educational institutes, the list goes on - for a change actually do its duty to the nation.

5. Can Modi sweep out inspectors?

Shyamal Majumdar, Business Standard: 23.10.2014

Factories need freedom from absurdities like seeking permission for working on Sundays and keeping detailed records of when the premises were whitewashed

Shyamal Majumdar | Mumbai

Prime Minister Narendra Modi has vowed to end the "inspector raj" in India's factories and unveiled steps to make inspections transparent and hassle-free. As a stated principle, this is nothing new since successive governments have resolved to end the dreaded midnight knocks from inspectors. What they forgot was to bridge the gap between promise and performance.

But Modi's statement has led to optimism because of his formidable reputation of walking the talk. And if he can pull it off, India Inc will be grateful to him - forever. The inspector raj has bothered companies for years, particularly the smaller ones, and been a key source of corruption.

To understand the problem, let's look at a few examples of the "inspections" that are required under the law and permissions that factories need to take from a vast army of inspectors who, according to the Factories Act, have the powers to "enter any office, establishment, factory or other premises of the employer and require them to produce records for examination".

The examples give an idea of why the entire process is ridiculous and simply a waste of time, energy and resources. According to the Act, a factory manager cannot ask or allow a worker to work in a factory on the first day of the week (Sunday), unless "he has or will have a holiday for the whole day on one of three days immediately before or after the said day". That's not enough. The manager must, in advance, deliver a notice at the office of the inspector of "his intention to require the worker to work on a Sunday". He also has to display a notice to that effect in the factory.

If you fail to follow the procedure, all that you have to do is pay a fat bribe to the inspector who will otherwise harass you for "violation" of rules.

There are other absurdities, too. For example, all inside walls, partitions, staircases and roofs need to be whitewashed once in 14 months, or revarnished and painted once in three years with washable paint or once in five years with non-washable paint. Besides, all doors, window frames, other wooden or metallic framework and shutters should be painted or varnished at least once in five years. Most importantly, the dates of whitewashing, painting or varnishing and so on should be noted in the prescribed register to the satisfaction of the inspectors.

Here is another gem. Every factory is required to provide "adequate and suitable" (the interpretation depends on the inspector) facilities for washing and drying of wet clothes and storing of clothes not worn during working hours. Also, factories have to provide sitting arrangements for employees "who are required to work in standing position in order that they may take short rests in the course of their work". And the factory management has to maintain detailed registers or records in forms, as may be prescribed by the state government in the rules. You need permission even if you install a generator in your factory and the permission is a long and painstaking process. Even if one forgets the massive amount of paperwork, the government has to employ a battalion of employees with the designation of inspectors whose only work is to harass industry.

Your woes won't end by dealing with one inspector since they come in all shapes and sizes. Over 44 central labour laws and nearly 100 state laws provide for chief inspector of factories; labour inspector; factory inspector; minimum wage inspector; vigilance inspector and health and safety inspector. There is also a provision for "bonus inspector" and "general inspector".

A typical factory has to maintain the following registers: muster rolls (separate for adult workers and children); register of accidents and dangerous occurrences; inspection book; overtime records; salary register; fine deduction register; wage slips and so on.

In that respect, Modi's stated plan of allowing companies to self-certify that they were complying with labour laws instead of annual inspections throughout the year will go a long way in improving India's rank of 134 in a list of 189 countries, compiled by the World Bank's Ease of Doing Business ranking.

6. Modi visits Siachen, meets soldiers on Diwali

Business Standard: 23.10.2014

The PM will also visit flood-affected people in Srinagar today

Prime Minister Narendra Modi on Diwali on Thursday spent some time with the soldiers posted on the heights of SiachenGlacier to send the message that all Indians stand shoulder-to-shoulder with them. Modi also greeted President Pranab Mukherjee from the icy heights on the occasion ofDiwali.

"Perhaps this is the 1st time that a PM has got the wonderful opportunity of spending time with our Jawans on this auspicious day of Diwali. From the icy heights of the Siachen Glacier and with the brave Jawans and Officers of the Armed Forces, I wish all of you a Happy Diwali. Wished President Pranab Mukherjee a very Happy Diwali from Siachen! Am sure this would be among the most unique greetings Pranab Da received," the prime minister tweeted.

Before leaving from Delhi, Modi had said, "Am going to Siachen with a message from each and every Indian to our soldiers — that we stand shoulder to shoulder with you," he said. Praising the country's sentinels, Modi said, "Be it the altitude or bitter cold, nothing deters our soldiers. They stand there, serving our Nation. They make us truly proud." He further said, "Everyone is aware of the extreme conditions at Siachen. Overcoming every challenge our soldiers stand firm, protectingourMotherland."

After his brief visit to Siachen, Modi will travel to Srinagar to meet the flood victims in Jammu andKashmir.

"After the Siachen visit I will continue with my scheduled visit to Srinagar to spend time with those affected due to the recent floods," Modi said on the micro-blogging site

7. MGNREGA is unwell
Martin Ravallion, Indian Express: 24.10.2014

These changes will not solve the main problems with the scheme, which relate to effective implementation on the ground, most importantly in India's poorest areas.

India's 2005 Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) creates a justiciable "right to work" by promising up to 100 days of wage employment per year to all rural households whose adult members volunteer to do unskilled manual work. Employment is provided in public works projects at a stipulated wage.

The Central government proposes to allow a greater share of the cost of projects under the scheme to go to skilled labour and materials. The mandatory share for unskilled wages will fall from 60 per cent to 51 per cent. It is also proposed that the MGNREGA be focused on backward areas only.

These changes will not solve the main problems with the scheme, which relate to effective implementation on the ground, most importantly in India's poorest areas.

In a book published recently, Right to Work?, my coauthors and I studied how the scheme was working across India, but chose to focus especially on one state, Bihar, which is simultaneously one of the poorest states and has the lowest participation in the scheme. (The book is open access, at: iexp.in/vPx119614.)

Under the idealised conditions that the MGNREGA's founders had in mind, we find that the scheme would have a large impact on rural poverty in Bihar, bringing the poverty rate in 2010 down by at least 14 percentage points.

However, reality falls far short of this ideal. We estimate that the actual impact on the poverty rate was around 1 percentage point. A specially-designed survey of 3,000 households across all of rural Bihar was used to make this calculation and to understand this disappointing performance. Along with extensive discussions in the field, we learnt a lot about how the scheme might work better.

A fundamental problem is that poor families are not getting the work they want on the scheme, and they are often not getting the full wages due to them. Their participation is far from costless — many have to give up some other income-earning activity when they take up work. But the unmet demand for work is the single most important factor in accounting for the gap between actual performance and the scheme's potential impact on poverty.

Our study also found very low public awareness about what needs to be done to obtain work. We used a randomised control trial of a specially-designed fictional (and entertaining) movie to show how knowledge of rights and processes can be enhanced. The movie was effective in raising awareness. But it had little discernible effect on actions such as seeking employment when needed. The reason is supply-side constraints on the ground, at the local level.

Those constraints need to be addressed, in addition to raising public awareness. A number of specific supply-side constraints on work-provision can be identified, including poor implementation capacity, weak financial management and defective monitoring and grievance-response systems.

It would help if changes in the scheme's design allowed extra resources to address these constraints. This would not require a large reduction in the share of spending going to unskilled wages, as proposed. That will reduce the share of spending going to poor people. There may well be compensating benefits in terms of the durability of the assets created, although that is unclear. Such benefits may well come at a cost to the impact on poverty.

Nor is it a good idea to confine the scheme to backward areas. For one thing, capacity and performance are likely to be lower in those areas, though with some exceptions. Also, the attraction of the MGNREGA is that (in principle) poor families who need work can be reached wherever they happen to live. Of course, there will be a higher incidence of poverty in backward areas. But there will be plenty of people who need the scheme but are not living in those areas.

Rather than tinkering with the design in such ways, realising the scheme's potential requires coordinated action on two fronts. First, administrative capacities for implementation and monitoring should be improved. Second, there needs to be greater public awareness of the rights and rules of the scheme, more active public mobilisation and better mechanisms for following up on problems.

If the potential gains to India's poor from the MGNREGA are to be realised then policymakers will need to focus on these problems. Given the scheme's current level of complexity, this will not be possible unless poor areas have greater administrative capacity to implement it. Reforms need to change the entire calculus of costs and benefits facing local leaders and officials. If workers know collectively that they can demand work at the stipulated wage under the law then they will resist any attempt by officials to ration them or take a cut from their wages.

It is important that reform efforts for MGNREGA work on both these aspects — a stronger, more capable, local administration, plus more effective participation by civil society. One without the other will not assure a true rozgar guarantee.

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8. This transaction is still incomplete
Indian Express: 24.10.2014

Earlier this month, the ministry of finance announced that over 50 million new bank accounts have been opened and 17 million debit cards issued since the launch of a bold new plan to grant financial access to the poor. Prime Minister Narendra Modi announced this initiative, called the Pradhan Mantri Jan Dhan Yojana (PMJDY), in a speech in August. Its ultimate goal is to reach 150 million unbanked rural poor people, giving them formal accounts that come with automatic life insurance, among other benefits, and can serve as destinations for payments from the MGNREGS and other government schemes. It is the most high-profile, and possibly the largest, campaign for financial inclusion in recent memory, and it is admirable in its aim to deliver much-needed services to the rural poor.

On October 7, a few days after releasing those figures, Modi sent an email to bank officers and staff congratulating them on their success so far, but also warning them that the “journey is bound to become more difficult”.

This is almost certainly true. Opening accounts and issuing cards create impressive numbers but amount to little more than creating computer files and encoding bits of plastic. It is when money starts to flow in and out of those accounts, often at the hands of public and private agents with their own set of motivations, concerns and incentives, that the real work begins.

We are a team of researchers who, for the past year and a half, have partnered with the government of an Indian state to study the rollout of an ambitious regional financial inclusion programme, the goal of which is to give poor rural households bank accounts and local access to small bank branches staffed by single agents. For the past year, we have monitored 199 of these mini-branches and conducted a survey of over 15,000 households (26,000 individuals) living in their catchment areas. The study is underway, and our specific goal is to measure the effect on women's empowerment. Meanwhile, we have witnessed up close numerous ways in which the regional initiative has failed, and the kinds of hurdles the PMJDY will have to clear if it is to successfully improve the financial lives of the rural poor. We have some insights that may be valuable in the implementation of the national scheme.

First, it is crucial to structure incentives so that all those involved in implementing the PMJDY, right down the chain of command, are motivated to achieve universal financial inclusion. In our case, the high-level bank management was committed to creating mini-branches and opening accounts, but middle managers had little reason to comply: their resources were stretched and they had limited power to monitor the branches. The branch agents themselves complained of low pay and often had second jobs.

As a result, the branches functioned poorly: our audits show that 10-20 per cent of branches generally were not open, and a further 14 per cent were open fewer than the required five days per week. A convoluted chain of accountability meant that when problems arose, bank officials and the firms operating the mini-branches would pass the responsibility back and forth. All this likely arises from the low profitability of the target customer — an aspect the national scheme will have to face. Many of these problems are avoidable if compensation schemes and monitoring mechanisms are designed with a clear eye on the need to align incentives as a means to increasing efficiency and preventing leakage.

Second, it is essential to provide financial education — and the right kind — to recipients of the new programme. Vast numbers of India's unbanked live in rural areas, are financially and functionally illiterate, and have little experience with technology. In our study, electronic MGNREGS wage payments are meant to go directly to the poor. Yet, we have seen that recipients often assume that the village leader needs to mediate the process, as was the case under the previous paper-based system. Among households who claimed to have at least one bank account, over a third reported still receiving MGNREGS wages in cash directly from a village leader. This opens the system to abuse — if poor households are unaware of the rules, they can easily be exploited by higher-ups.

This initiative calls for a strategic approach to determine exactly what kind of training can effectively engage the newly banked with the formal financial system and give them full and independent ownership of their financial futures. Further, in implementing the PMJDY, the government should establish a clear, independent system of redress, ensuring citizens can hold agents and officials accountable.

Third, in rolling out its national plan, the government must anticipate technical breakdowns. In our experience, although the state-level government and bank leadership acknowledged that server capacity might be a problem, they found it difficult to make a plan for addressing delays, assigning accountability and using incentives or penalties to motivate fast repair. In some of the sign-up drives we held in villages, mini-branches were only able to open one to two accounts per eight-hour day due to connectivity issues and server delays. For villagers who remain sceptical of the value of having a bank account, such delays may cause them to abandon the formal financial system.

Clearly, the national government should do its best setting up the technology for the PMJDY scheme, especially in rural areas with low connectivity. But beyond that, it must create contingency plans and design accountability. Also, it should consider exploiting networks already in place. In his Independence Day speech, Modi said, “There are millions of families who have mobile phones but no bank accounts. We have to change this scenario.” Perhaps the way to change this is by leveraging the vast mobile phone network itself. We have seen in Africa how mobile phones can be portals for bank accounts; India should explore and evaluate the best ways to utilise mobile phone service providers to grant users access to payments and account information.

Finally, the Indian government, and the media and public, should think about how best to measure success. Fifty million new bank accounts sounds like a lot, but in our experience, a significant number of accounts lie dormant or are only used occasionally to receive government benefit payments. A more telling number, and one the government and regulators should make available, is the number of accounts active a year from now, and five years from now, and the extent to which they are used. This will give us an idea if the government is spreading financial inclusion and the quality-of-life benefits that entails, or just pieces of plastic.