Inclusive Finance India Report 2022

Edited by

N. S. Vishwanathan

First published in 2022 by

ACCESS Development Services
22, Ground Floor, Hauz Khas Village
New Delhi 110016

ISBN 978-81-955245-4-9

Contents

List of Tables, Figures, Boxes, Appendices and Abbreviations

Tables

Figures

Boxes

Appendices

List of Abbreviations

AA	Account Aggregator
ABCO	Active Borrowers per Credit Officer
AePS	Aadhaar-enabled Payments System
ANBC	Adjusted net Bank Credit
BBPS	Bharat Bill Payment System
BC	Business Correspondent
BCM	Billion Cubic Meters
BNPL	Buy Now Pay Later
BSBD	Basic Savings and Bank Deposit
BSBDA	Basic Savings Bank Deposit Account
CAGR	Compound Annual Growth Rate
CCL	Cash Credit Limit
CD	Credit-Deposit
CGSSD	Credit Guarantee Scheme for Subordinate Debt
CGTMSE	Credit Guarantee Fund Trust for Micro and Small Enterprises
CICO	Cash-In/Cash-Out
CRI	Climate Risk Index
CRR	Cash Reserve Ratio
CSP	Customer Service Point
DAY-NRLM	Deendayal Antayodya Yojana-National Rural Livelihoods Mission
DBIE	Database on Indian Economy
DBT	Direct Benefit Transfer
DCCB	District Credit Cooperative Bank
DFC	Digital Financial Capability
DFI	Development Financial Institutions
DFS	Digital Financial Services
DLAI	Digital Lenders Association of India
DPI	Digital Payments Index
DSCB	Domestic Scheduled Commercial Bank
ECLGS	Emergency Credit Line Guarantee Scheme
FI	Financial Inclusion
FLC	Financial Literacy Centres
FLDG	First Loss Default Guarantee
FPC	Farmer Producer Companies
FPO	Farmer Producer Organisation
FSP	Financial Service Provider
FY	Financial Year
GCC	General Credit Card
GDS	Gramin Dak Sevak
GeM	Government e-Marketplace
GoI	Government of India
GSTN	Goods and Services Tax Network
IFI	Inclusive Finance India
IFR	Inclusive Finance Report
IMPS	Immediate Payments System

IRACP	Income Recognition, Asset Classification and Provisioning
JAM	Jan-Dhan, Aadhaar and Mobile
JLG	Joint Liability Groups
KCC	Kisan Credit Cards
KYC	Know Your Customer
MFI	Microfinance Institution
MPC	Monetary Policy Committee
MPoS	Mobile Point of Sale
MSME	Micro, Small and Medium Enterprise
MSP	Minimum Support Price
MUDRA	Micro Units Development and Refinance Agency
NABARD	National Bank for Agriculture and Rural Development
NBFC	Non-Banking Financial Company
NBFC-MFI	Non-Banking Finance Company- Microfinance Institution
NCFE	National Centre for Financial Education
NGO	Non-Governmental Organization
NPA	Non-Performing Asset
NPCI	National Payments Corporation of India
NRLM	National Rural Livelihoods Mission
NULM	National Urban Livelihoods Mission
OCEN	Open Credit Enablement Network
OD	Overdraft
ONDC	Open Network for Digital Commerce
PAN	Permanent Account Number
PACS	Primary Agricultural Credit Society
PB	Payment Bank
PDS	Public Distribution System
PIDF	Payment Infrastructure Development Fund
PLF	Primary Level Federations
PMFBY	Pradhan Mantri Fasal Bima Yojana
PMGKY	Pradhan Mantri Garib Kalyan Yojana
PM-JAY	Pradhan Mantri Jan Arogya Yojana
PMJDY	Pradhan Mantri Jan Dhan Yojana
PMJJBY	Pradhan Mantri Jeevan Jyoti Bima Yojana
PMMY	Pradhan Mantri MUDRA Yojana
PMSBY	Pradhan Mantri Suraksha Bima Yojana
PM WANI	Prime Minister Wifi Access Network Interface
PVTG	Particularly Vulnerable Tribal Groups
PoS	Point of Sale
PS	Priority Sector
PSB	Public Sector Bank
PSL	Priority Sector Lending
PSLC	Priority Sector Lending Certificate
PVB	Private Bank
QR code	Quick Response code
RBI	Reserve Bank of India
RBIH	Reserve Bank Innovation Hub

RCB	Rural Co-Operative Banks
RFP	Request for Proposal
ROE	Return on Equity
RRB	Regional Rural Bank
RXIL	Receivables Exchange of India
SBI	State Bank of India
SBM	Swacch Bharat Mission
SCBs	Scheduled Commercial Banks
SDG	Sustainable Development Goals
SEWA	Self Employed Women's Association
SFB	Small Finance Bank
SHG	Self-Help Group
SHG-BL	Self Help Group Bank Linkage
SHPIs	Self-Help Promoting Institutions
SIDBI	Small Industries Development Bank of India
SLBC	State-level Bankers' Committee
SLF	Secondary Level Federation
SLR	Statutory Liquidity Ratio
TLF	Tertiary Level Federation
TLTRO	Targeted Long-Term Repo Operations
TReDS	Trade Receivables Discounting System
UBI	Universal Basic Income
UNSGSA	United Nations Secretary-General's Special Advocate
UPI	Unified Payments Interface
WASH	Water, Sanitation and Hygiene

Foreword

Finally, the pall of the pandemic seems to be lifting; unless a new wave, ominously building up in our neighborhood, decides to descend and scuttle the plans and prospects of revival. The last over two years of the COVID, truly were devastating; specifically, for the small vulnerable businesses; and it will take a while to rebuild their livelihoods to levels where they can cope with future shocks and remain antifragile. This of course, is easier said than done.

On the financial inclusion front, the India story has been pacy; ever since, maybe, the Prime Minister first announced the Jan Dhan Yojana (PMJDY) in 2014. As of December 2022, there were about 478 million PMJDY accounts, with an aggregate balance of INR 180 trillion and 320 million Rupay Cards issued. Almost every rural household has access to formal banking services. Public Sector Banks, with 85% of the accounts, have been the leaders of this mammoth campaign. Despite these gains, loans from formal sources are still fewer than they are from informal sources, critical for true and tangible benefits from financial inclusion. This is borne out from the recently released World Bank Findex report that states that 31% of adults still borrowed from friends and relatives. Women continue to be less attractive to formal financial institutions for loans.

As per the recently released Global Findex Report, with 78% adults having bank accounts, India fares better than the developing economy average of 71%. However, usage in these accounts has not improved, with about 35% remaining still inactive. Interestingly, the gender gap in account ownership has significantly reduced to almost zero. With greater volumes of Direct Benefit Transfers into accounts (54%), it is expected that, over time, the usage will improve. While overall, propelled by the pandemic, digital transactions in the country have increased exponentially; as per the Findex Report, merchant and utility bill payments are among the most common. Over 127 million adults, as per the Report, made their first digital payments directly from their account for the first time during the COVID period. Women are found less savvy in undertaking digital transactions than men. The savings trend has also registered a decline of 10% since 2017; and only 17% save in bank accounts. This significantly reduces their financial resilience, specifically in times of emergencies, with less access to ready cash availability.

Prior to the launch of PMJDY, and it stands true even today, the two traditional strands for financial inclusion, specifically for the bottom of the pyramid women, were the Microfinance Institutions (MFIs) and the Self Help Group (SHG) Bank Linkage programme. Over the last 25 years or so, from "a good market-based model, doing good and doing well" to a "not so good, exploitative, profiteering" mechanism, the debate around the raison d'etre for MFIs in a country where an already established impressive formal financial institutional infrastructure existed, is over, for good. MFIs are now fully legitimized, fully regulated set of institutions; and today cover almost the entire country, serving about 62 million clients with a gross loan portfolio of INR 3,000 billion. While there was some slowdown due to COVID, the sector is poised to spring back with new energies. Also, thanks to COVID, with "physical" becoming difficult, several innovations in disbursements and collections, using technology were introduced. The new RBI regulation for MFIs too, is seen as a positive, providing more operational flexibility and is bound to spur growth, both in outreach and portfolio size.

The other strand, the SHG Bank Linkage programme, touted as the world's largest microfinance programme, is now three decades old. When the Programme was 20 years, ACCESS had brought out a book titled "Banking on Self Help Groups". Now after Three Decades, ACCESS has commissioned another book to document this phenomenal journey. While NABARD should take a lot of pride in starting and spearheading the programme; however, National Rural Livelihoods Mission (NRLM) seems to have taken the leadership after SHGs became the mainstay plank for the national poverty eradication programme. With about 12 million SHGs existing currently, it will continue to be an important programme, even though there remain challenges. While reluctance from formal financial institutions for lending to SHGs has been a continuing challenge, it will necessarily require a lot more ecosystem strengthening, better directed capacity building / hand-holding and adoption of technology to track transactions to enable banks to respond positively. Transitioning from group-based loans to individual loans for setting up of enterprises, I guess, should be the next big effort.

Regional Rural Banks (RRBs) have been an important institutional cog in the financial inclusion schema, since 1975. While the original idea of RRBs was a good one, set up to serve the lower segments of the population in rural areas, over the years, there has been some mission drift. Now, profitability takes precedence over all else. Ever since they were set up, ownership of the RRBs, and the conflict of interest within that, has been a critical reason for their getting bogged down. RRBs have not been provided the necessary level playing field to operate competitively. And, now, with new differentiated banks like the Small Finance Banks and Payments Banks, which have private sector ownership, are new generation, technology driven; the competition will only increase, given similar mandates and statutory obligations. This is perhaps a good time to reflect on the need for RRBs to exist; and if so; what re-engineering is required to justify their existence.

Jan Dhan, Aadhaar and Mobile, now popular as the JAM trinity, has been a game changer of sorts. The digital network is now the fulcrum for most of India's social security and cash transfer programs, with direct benefit transfers for 317 programs. It made 2.6 billion transactions in 2021-22, getting more than INR 6000 billion to beneficiaries.

The four big successes of India's public digital infrastructure have been Unified Payments Interface (UPI), Bharat QR, Bharat Bill Pay System (BBPS) and the RuPay card. UPI allows peer-to-peer and consumer-to-merchant transactions through mobile apps and e-commerce platforms. It registers over 2 billion transactions a month. Bharat QR, with 250 million transactions a month, allows consumers to scan the graphic codes to transfer money without sharing phone numbers. Since going live in 2018, BBPS allows Indian consumers to pay bills for practically everything online - utilities, school fees, insurance premiums and loans. Launched in 2012, more than 600 million RuPay cards have been issued, chiefly on Jan Dhan accounts. RuPay has a 30% market share in point of sale transactions and 25% in online transactions.

Micro Small and Medium Enterprises (MSMEs) are central to the employment and economic growth in India. They employ over 110 million people, contribute to 40% of exports and about 28% to the GDP. As per the MSME Census (2006-07), of the total 36 million enterprises, over 95% are in the informal sector. It is these that face the most challenges, specifically for access to finance. If creation of jobs has become so critical to the national economy, the informal sector enterprises require that much more focus. While MUDRA was introduced precisely for this purpose, the proportion of loans going to the very small microenterprises (loans up to INR 1 million) is very minimal.

Finally, financial services to women continues to be a critical concern. As per a UN study, at 17%, India has a lower share of women's contribution to the GDP than the global average of 37%. India's current female labour force participation rate at 20% is amongst the lowest in the world, worsened during the last couple of pandemic years. As per NSSO data, of the women engaged in non-agricultural employment, as much as 84.7% are in the informal sector. Only 13.76% of enterprises are owned by women and more than 95% of these fall in the microenterprise category with low levels of capitalisation. Even though the number of women with bank accounts have increased under the PMJDY, equity in financial usage has lagged. Credit use in particular by women is low. The share of women borrowers in India is lower still at 10 percent, as compared to 15 percent of men. As per the Global Gender Gap Report 2022, India ranks 135 out of 146 countries. According to the IMF, unlocking this potential and closing the gender gap could boost India's GDP by USD 700 billion by 2025.

This widening gap is due to several factors; but an important factor is women's poor access to finance. Women entrepreneurs face barriers in accessing finance, especially to set-up and meet the needs of their enterprises. Bridging this gap in access to finance is crucial for enabling greater women entrepreneurship and higher women labour force participation, as women tend to employ more women. ACCESS, in 2022, has begun a campaign to highlight this huge challenge, since unless this is addressed, we are potentially missing out on a huge opportunity. Financial Inclusion is also about equitable growth.

The Inclusive Finance India Report continues to be the most composite document on Financial Inclusion, tracking progress of the campaign on a year-on-year basis; and has certainly emerged as the principal reference document for policy makers, promoters, practitioners, academia, students, to learn on the forays made in India on financial inclusion. While each year ACCESS commissions the Report, it is supported by a wide range of stakeholders. SIDBI, NABARD and Rabo Foundation have been among the longest and continuing supporters of the Report, with Bill & Melinda Gates Foundation and Mastercard also being associated now for close to a decade. The Report this year has additionally been supported by IDFC First Bank and water.org. I would like to express my deep gratitude to all sponsors for their unstinted and continued association with this effort, without which it would not have been possible for ACCESS to bring out the Report.

The Inclusive Finance India Report, as always, has been insightful and analytical highlighting the factors that have helped to advance / impede the progress of financial inclusion in the country. ACCESS has, all along, been fortunate to have identified great thought leaders to help bind the Report together. I would like to place my special thanks to Mr. N S Vishwanathan for agreeing to edit the Report, for the second consecutive year, despite his other overwhelming priorities. He has worked with all the Chapter authors with great patience, refining the structure, making suggestions, and helping in knitting the Report into one composite document. I also take this opportunity to thank all the chapter authors, some of whom have been associated with the Report for many years now, for their painstaking efforts and providing great thematic insights through their chapters. I would like to individually thank Srini (Microfinance: Overcoming the Pandemic Gloom); Bhaskaran (The Banking System: Driving the FI Juggernaut); Gaurav Gupta (Regional Rural Banks); H K Pradhan & Sunil Puliyakot (MSME Finance); Smita Premchander and team (Self Help Groups); Akshat and Graham (Digital Financial Services); Hemendra (Green Financing); Henrietta (WASH Financing) and Indradeep & Susan Thomas (Financial Inclusion Measurement). Thank you all for your incredible effort and support in helping to bring out this edition of the Inclusive Finance India Report.

Finally, I also take this opportunity to thank my small team at ACCESS in providing the timely support to the Editor and the authors in terms of data mining, copy editing, coordination with the printers, among others. The team, led by Radhika and supported by Praveen, Diana and Lalitha, has been nimble in its responses, and tireless in its efforts to ensure that a high quality Report is brought out in time. Praveen was particularly adroit in his support to the authors for data analysis and consolidation and secondary research, which was highly appreciated by all.

I hope the Report, as always, has useful insights to better understand the aggregate efforts of a large number of stakeholders from policy makers, to the regulator, to diverse institutions – all contributing in advancing financial inclusion in India. As per convention, the Report will be formally launched at the 19th Inclusive Finance India Summit on January 17, 2023. Happy reading.

Vipin Sharma
Chief Executive Officer

access

Preface and Overview

It is a well-known fact that economically weaker people are the most negatively impacted by any economic crisis/adversities. The global economy has witnessed a series of such crises - the Great Recession, the COVID Pandemic led economic downturn and now the crisis caused by geopolitical developments. The low for long is now replaced by high for how long. Central banks are on an interest rate raising spree in their fight against inflation, which is at record levels in many countries. There are now fears whether the global economy will transition soon to a recessionary phase.

India was, obviously, not immune to these global developments. The Consumer Price Index (CPI) inflation was above the tolerance band for the Monetary Policy Committee (MPC), and the MPC raised the Repo rate by 225 bps over the last eight months commencing May 2022. The global food and crude oil prices led inflation was to an extent attenuated by the depreciation of INR versus the USD. Inflation, particularly food prices led one, impacts the poor lot more. This came just as the economy was trying to get back to normalcy post the COVID pandemic, which again hurt those in the lower strata of the economic ladder the most.

Financial inclusion, which enables the poor to access the formal financial system for savings and debt, reduces the vulnerability of the included to an economic crisis. On the one hand, it makes them relatively better off through access to financial services from the entities in the regulated space, and on the other it enables them to tide over disruptions caused by exogenous developments.

National Strategy for Financial Inclusion 2019-24, put out by the RBI, states aptly as under:

> *Access to formal finance can boost job creation, reduce vulnerability to economic shocks and increase investment in human capital. Without adequate access to financial services, individuals and firms need to rely on costly informal sources of finance to meet their financial needs and pursue growth opportunities. At a macro level, greater financial inclusion can support sustainable and inclusive socio-economic growth for all.*

Financial inclusion is identified by World Bank as an enabler for achieving seven of the Sustainable Development Goals. Public policy in India has been driven by the need to widen, deepen and accelerate financial inclusion, though the instruments and approaches used to achieve the objective have gotten progressively more sophisticated over time. More importantly, the definition of financial inclusion has itself undergone a change to make it more wholesome rather than being viewed from a limited frame of access to bank accounts and credit.

In the initial years, the Indian government used a rather blunt instrument of the public sector banks being made to purvey credit to those who might not strictly pass the commercial viability test. Unfortunately, the execution of these programmes was poor, with the result some of these degenerated into the distribution of largesse with no tangible economic outcomes. Increasing competition in the banking sector, Priority Sector lending (PSL) policy, which mandated banks to direct a part (40%) of their loans to segments and sectors that might not have easy access to bank credit in the normal course, differentiated bank licensing, which created banking entities that had a licensing policy-driven requirement to lend a larger proportion (75%) of their loans to the priority sector and also provide small ticket loans, the use of Business Correspondents for the conduct of banking business as well as the decision to replace the brick and mortar branch with the banking outlet as the point of bank presence, have all contributed to deepening and widening the reach of banking services to people and areas not otherwise likely to have been served by banks. An enabling regulatory environment facilitated the growth of a strong microfinance sector in the NBFC segment that provided access to formal credit to the excluded. One could see clearly how the approach to enhance financial inclusion moved from being regulatory mandates to a mix of regulatory prescriptions and market enablers. Even the policy mandate on priority sector lending was made partly a market-driven instrument through the introduction of priority sector lending certificates, a system under which trading in priority sector lending was facilitated. A little more about this later.

While access to bank accounts was not an end in itself for financial inclusion, it was definitely the beginning. In the initial years, multiple policy initiatives aimed at increasing the number of persons having bank accounts were pursued, and each of the instruments mentioned above can be seen as directly and indirectly facilitating that. It, however, required the strong push for opening of bank accounts under the Pradhan Mantri Jan Dhan Yojana (PMJDY) to really get there. There are three elements of the PMJDY that need to be mentioned here. First, it was not a case of persons going to banks to open accounts but banks going to people in 'camp mode' to make them open accounts. Second, the Aadhaar (the national digital data base of individual identity) provided for easy identity documentation. Third, the regulations on 'no frills' account, which was later rechristened as Basic Savings Bank Deposit (BSBD) accounts, ensured that persons of small means are not deprived of having operating bank accounts by mandating certain basic facilities without the requirement of a minimum balance. To elaborate, most banks insisted on a minimum balance to provide operating bank accounts with chequebooks, ATM facilities etc. The BSBD accounts regulation required banks to open savings accounts that provided limited ATM withdrawals and cheque facilities, among others, without a minimum balance. Thus, the fear of penalty on non-maintenance of minimum balance as an inhibitor of people of small means opening bank accounts was gotten over. This was further popularised by the decision of the Central Government to expand the reach of the RuPay card, the Indian card network operated by the National Payments Corporation of India (NPCI).

Access to banking facilities was made much easier by enabling the provision of banking services through banking outlets. The manifold increase in the number of touch points of banks witnessed in the last couple of years was primarily driven by this regulatory policy change. This is a crucial reform because, unless a transaction touch point is available at a reasonably nearby place, people may be less inclined to make transactions. Of course, the innovations and policy enablement in the digital payments space have made access to a physical touch point much less necessary, but the importance of access to touch points cannot be undermined for the less digitally savvy persons. As per RBI Annual Report for 2021-22, it has been ensured that a banking outlet was available within a 5-kilometer radius of every village/hamlet of 500 households in hilly areas in 99.94% of the identified villages.

An important element of the financial inclusion strategy in India has been the extensive use of technology to expand the reach of and facilitate access to financial services. The JAM trinity, comprising Jan Dhan Accounts, the digital identity database of Aadhar and increased penetration of mobile telephony, has enabled ease of opening bank accounts and the creation of payment systems that facilitate simple, safe and high-speed financial transactions.

India began the digital payments journey some years ago. As far back as October 2013, the Payment Systems in India: Vision 2012-15 put out by the Reserve Bank of India had thus stated the vision:

To proactively encourage electronic payment systems for ushering in a less-cash society in India and to ensure payment and settlement systems in the country are safe, efficient, interoperable, authorised, accessible, inclusive and compliant with international standards.

The Payments Banks were licensed in 2014 as part of the plan to reach electronic transfers to the nook and corners of the country. The Unified Payments Interface was launched in April 2016. Effective 16 December 2019, NEFT was made a 24 x 7 available payment system. Although the digital payments movement began in India some time ago, the Pandemic provided the impetus to make it a widely accepted mode of transaction. This was partly because the remote purchase of goods and services had become a necessity and convenient method of buying household requirements. There was a general discomfort with contact-based payments that cash transactions entailed. This led to explosive growth in digital payments, led largely by the Immediate Payments System (IMPS) and Unified Payments Interface (UPI), which were easy, accessible and secure. These together form the bulk of the 'fast payments' system.

Table 1. Growth in digital payments through IMPS and UPI (Volume in Million and Value in ₹ Trillion)

	IMPS Volume	IMPS Value	UPI Volume	UPI Value
2018-19	1.75	15.9	5.39	8.8
2019-20	2.59	23.4	12.42	21.32
2020-21	3.25	29.3	22.33	41.04
2021-22	4.66	41.7	45.96	84.16

Source: RBI Annual Reports 2020-21 and 2021-22

The phenomenal growth in retail digital payments through IMPS and UPI spurred by the transformational behaviour change as a result of the pandemic can be seen in Table 1.

It can be seen that the UPI has been one of the major drivers of the digital payments system in the retail payments space. In a recent IMF Country Focus paper titled 'How India's Central Bank Helped spur a Digital Payments Boom' for IMF, the authors Jeff Kearns and Ashlin Mathew note that:

India's digital payments volume has climbed at an average annual rate of 50% over the last five years. That itself is one of the world's fastest growth rates, but its expansion has been even more rapid- about 160% annually- in India's unique, real-time, mobile-enabled system, the Unified Payments Interface.

The Payments Vision 2025, put out by the Reserve Bank of India, identifies the core theme as 'E-Payments for Everyone, Everywhere, Everytime', and the vision is to provide 'every user with safe, secure, fast, convenient, accessible and affordable e-payment options'. The Vision document provides a series of measures to deepen inclusion. These include enabling geotagging of digital payments infrastructure, upscaling customer outreach and awareness, and strengthening grievance redress mechanisms. Another game-changing proposal is the plan to link credit cards and credit components of banking products to UPI. Being able to use the Kisan Credit Cards (KCC) over the UPI can bring about a transformational change to farmers' financial transaction behaviour. One can therefore see an inclusive digital payments system as an even more important bulwark of the financial inclusion journey going forward.

Although the non-traditional instruments are gaining ground, the financial inclusion efforts are propelled by the regular agents – the banking system and the NBFCs. A lot of innovations in their operations, enabled by the digital revolution, intervention of Fintechs and changes in the regulatory environment, have taken place. The trend of banks playing a major role in lending to the microfinance segment borrowers directly continued, although their share declined from 58.4% in 2021 to 56 % in 2022. They also have exposures through lending to the NBFC MFIs and acquiring such assets through securitisation. The number of active loans in the MFI segment reduced from 112 million in 2020-21 to 108 million in 2021-22, the reduction in the number being driven by the resolution of restructured COVID time loans. The delinquencies in the segment measured by PAR 30 days had declined from 16.7% in June 2021 to 5.3% in March 2022, indicating that the MFI segment is coming out of the COVID pandemic-induced stress.

As mentioned earlier, the number of banking outlets saw a phenomenal increase led by the use of business correspondents. A CAGR of 46% and over hundred per cent through the 11-year period of 2010-2021 in the number of rural and urban BCs is by itself an outstanding development, but the fact that much of the increase has happened during the last three years is vindication of the recent policy initiatives of the government and the RBI. The number of PMJDY deposit accounts increased from ₹ 0.42 billion in March 2021 to ₹0.47 billion by mid-December 2002. The total deposits in these accounts increased from ₹1455 billion to ₹1796 billion during the same period taking the average deposit per account from ₹3,499 to ₹3,766. The number of RuPay Cards issued to such account holders stood at ₹0.32 billion as of mid-December 2022. (PMJDY website, Government of India)

Priority sector lending is an important instrument of financial inclusion both in terms of activities covered and the intended borrower beneficiaries. It is worth noting that PSL achievement of all classes of banks recorded growth during the year 2021-22 over 2020-21. While PSL as a percentage of ANBC increased from 41.06 to 42.45 in 2021-22 for PSBs, in the case of PVBs, it increased from 40.62 to 43.27 and for foreign banks from 41.02 to 42.28. Except for foreign banks, the absolute amount outstanding in the Priority Sector loans witnessed growth. While in the case of PSBs, the growth was 8.6%, in the case of

PVBs it was a healthy 17.6%. The introduction of PSLCs was a process of creating a market mechanism to incentivise specialisation in priority sector lending. It enables banks that have excess PSL over their target to sell the excess PSL portfolio for a fee. The acquiring bank only gets the priority sector tag on the exposure it has paid a fee for but not the portfolio risk, which remains with the originating bank. This enables banks specialising in PSL to make an earning in the form of a fee while the acquiring banks can achieve their targets without taking credit exposure. The PSLC trading volume in 2021-22 stood at ₹66.2 million, registering a growth of 12.4% over the levels in 2020-21.

MSMEs play a significant role in the economy in terms of contribution to GDP, employment and exports. The outstanding bank credit to the MSME sector increased from ₹17.83 trillion as of March 2021 to ₹ 20.22 trillion as of March 2022. However, there was a reduction in the number of accounts from 42 million to 26.5 million, which is attributed to the mandatory Udyami registration requirement under the new MSME. Guidelines. While several schemes for rescuing the MSME units impacted by COVID have helped the sector, several concerns still need to be addressed.

This year's Inclusive Finance India Report covers some of these and other important developments in greater detail through chapters written by various authors who are experts in the respective areas. While this edition has some of the regular chapters that encompass the financial inclusion arena- like the role of banks, the MFI sector, lending to the MSME sector, the SHG Bank linkage programme as also the role of the digital revolution on the financial inclusion reach and quality, the authors have provided newer perspectives and suggestions for further improvement. Besides, this edition has a separate chapter on one of the unsung heroes in the financial inclusion journey - the Regional Rural Banks. The chapter highlights the role played by this specialised set of banking institutions whose significant contribution to the financial inclusion agenda gets lost in the noise over their viability. While not undermining the fact that, as a class of institutions, RRBs failed to achieve their target for agriculture both in 2020-21 and 2021-22, many individual RRBs have done well. They are, as a class, better at serving the weaker sections. This edition of the report also includes a separate chapter on WASH Financing, a crucial part of sustainable development. The chapter highlights how water, sanitation and hygiene financing is at a very nascent stage and calls for a regulatory push for diverting formal credit to this sector. It must be added that in the context of overall climate risks, there is a need for more attention to this segment. The role of WASH financing in preventing poor hygiene-induced sickness is of great significance for inclusive finance. The report also contains a chapter on a methodology for evaluating the outcomes of inclusive finance efforts. Developing a robust methodology to evaluate the effects of public policy interventions is important to assess whether the intended objectives are achieved and make necessary corrections. While the FI index introduced by RBI is a significant step, the alternative model suggests ways to measure the impact in terms of the behaviour of the beneficiaries. As mentioned, the model needs to be reinforced through a more survey-based analysis covering other states but obviously highlights that impact analysis needs to go beyond publicly available data.

The cooperative finance system is an important cog in the financial inclusion wheel. Like the RRBs, their contribution to deepening financial inclusion gets clouded by issues of their viability. It is necessary to make a detailed assessment of their role in financial inclusion. This is for two reasons. First, in terms of serving farmers at the bottom of the economic pyramid, the rural cooperatives are a significant set of players. This can be seen from the average loan size of PACS as compared to other lenders in the formal sector. For instance, the rural cooperatives had a 45% share in Kisan Credit Cards issued as of March 2020 with an average outstanding per card of ₹47,250 as against ₹1,11,470 in the case of RRBs and ₹1,71,327 in the case of commercial banks. As PACS are not banks and not regulated directly, their role has been less recognised. However, with NABARD bringing those availing refinance under a regulatory framework, this should change. Second, the rural cooperative system, through the DCCBs or the State Cooperative Bank where DCCBs do not exist, provides savings products. In semi-urban and urban areas, Urban Cooperative Banks provide both savings and credit products. Some of them are even providing online banking facilities. The decision of the Reserve Bank to raise the PSL target for them to 75%, like in the case of SFBs, will enhance their role in purveying credit to the less included and the excluded. A proper analysis of the role of rural cooperatives in the financial inclusion space would call for more intense data collection and access to such reliable information.

Deepening financial literacy is an integral part of any financial inclusion efforts. While increased access to financial services improves the supply of financial products, financial literacy and awareness enhance the demand for such products. The Reserve Bank and the Government have taken a host of measures to spread awareness about financial products across the country. Financial Literacy Centres (FLC) are playing a crucial role in improving financial awareness. A survey of 80 FLCs showed perceptibly higher financial literacy among those exposed to the programme and found that such persons had a greater likelihood of using the banking system for their savings. The RBI intends to expand the reach of the Centre for Financial Literacy (CFL) programme as a key segment of the measures to ramp up financial literacy.

Now that the IMF FINDEX Report 2017-21 has been published, a reference to some of its findings is appropriate. Globally, there has been an increase in the bank account ownership, with 71% of the adult population owning accounts. India saw bank account ownership increasing from under 40% in 2011 to about 83% in 2021. The COVID pandemic catalysed growth in digital payments. In India, for instance, 80 million people made their first digital payment during the pandemic. Of course, as pointed out earlier, there has been no looking back since then. The Report alludes to a relatively high percentage of adults not having accounts in 2021, which must have come down with the target of account opening under PMJDY moving to include all adults from the earlier intent of covering every household. There are important lessons for policymakers in the report, which in a way, are also coming out through various chapters of this edition of the IFR.

Financial inclusion is a journey and not a destination. India has pursued a mix of policies and instruments to expand the reach of financial services. The process has been aided by significant innovations in the payment space as also in the use of technology to improve credit delivery. Given the vastness and the diversity of the population in terms of levels of economic well-being, nature of economic activities and regional specificities, there is a need for a wide spectrum of institutions, products, instruments and processes to enhance financial inclusion. This is why banks of different types, NBFCs of various kinds and other institutions, including civil society organisations, play a crucial role in this effort. The National Strategy for Financial Inclusion 2019-24 recognises this by aiming 'to make financial services available, accessible, and affordable to all the citizens in a safe and transparent manner to support inclusive and resilient multi-stakeholder led growth'. There is no gainsaying the fact that the task is enormous, but equally important to acknowledge that the progress made so far is no less insignificant.

It is my view that the IFR should evolve with the change in financial inclusion dimensions and recognise the role of different agents and systems in furthering the cause of financial inclusion. This is the reason we have a new set of chapters in this edition. As the contents of this report will reveal, the pandemic threw several challenges, and the authorities responded to these emerging developments. Some of the outcomes have been transformational, and some of the measures need redesigning or reinforcements to help persons at the bottom of the economic pyramid to become more resilient. It is hoped that this year's IFR, like the earlier ones, will be of interest to the policymakers, the strategists, the experts and actual ground-level players in the financial system as well as everyone else who is already connected with or intends to connect with inclusive growth, as a reference point for developments in the financial inclusion space in India and the way forward.

Let me conclude by thanking all the authors for their scholarly contributions and the staff at ACCESS for their immense support.

N. S. Vishwanathan

REFERENCES

(2022). Pradhan Mantri Jan Dhan Yojana: https://pmjdy.gov.in/

(2020). *National Strategy for Financial Inclusion 2019-2024*. Reserve Bank of India.

(2022). *Payment Vision 2025*. Reserve Bank of India.

(2021). *Reserve Bank of India Annual Report 2020-21*. Reserve Bank of India.

(2022). *Reserve Bank of India Annual Report 2021-22*. Reserve Bank of India.

(2021). *World Bank Global Findex Report 2017-2021*. The World Bank.