

IV

CREDIT DELIVERY AND FINANCIAL INCLUSION

The Reserve Bank continued to take further strides in line with the National Strategy for Financial Inclusion (NSFI) making specific efforts to improve credit delivery and financial inclusion. It also scaled up the Centre for Financial Literacy (CFL) project by establishing 1,107 Centres for Financial Literacy besides helping in the inclusion of financial education in the school curriculum. It is also planning to strengthen the ecosystem for digital financial services that will support provision of last mile access and expand the bouquet of financial products at affordable cost with ease of use. These efforts are being complemented by strengthening consumer protection for redressal of customer grievances. The Reserve Bank also introduced a Financial Inclusion Index (FI-Index) that will help monitor progress in terms of access, usage, and quality.

IV.1 The Reserve Bank continued its endeavour of ensuring ease of access to banking services for all sections of people across the country, and further strengthening the credit delivery system to cater to the needs of all productive sectors of the economy, particularly agriculture and micro and small enterprises (MSEs). A number of initiatives were taken during 2021-22 to improve credit delivery and promote financial inclusion.

IV.2 As announced in the Statement on Developmental and Regulatory Policies in the first bi-monthly Monetary Policy Statement for 2021-22 (April 7, 2021), the Reserve Bank has constructed a composite Financial Inclusion Index¹ (FI-Index) to capture the extent of financial inclusion across the country and also to serve as a tool for calibrating future policy interventions for greater financial inclusion. The index is responsive to ease of access, availability and usage of services, and quality of services. The FI-Index has been constructed without any 'base year' and as such it reflects the cumulative efforts of all stakeholders over the years toward financial inclusion. The annual FI-Index for the period ending March 2021 stood at 53.9 as against 43.4 for the period ending March 2017, capturing the progress made in this

area. The FI-Index will be published annually in July every year.

IV.3 The National Strategy for Financial Inclusion (NSFI): 2019-24 lays down several milestones and action plans to be implemented for enhancing financial inclusion during the period of coverage. The key achievement under NSFI during the year was ensuring the availability of a banking outlet within a 5 km radius of every village/hamlet of 500 households in hilly areas, in 99.94 per cent of the identified villages.

IV.4 The National Strategy for Financial Education (NSFE): 2020-25 intends to realise the vision of a financially aware and empowered India by helping the people of the country to develop adequate knowledge, skills, attitudes and behaviour which are needed to manage their money better and to plan for the future. The recommendations in the strategy document are being implemented by the National Centre for Financial Education (NCFE) in consultation with various stakeholders. The progress made thereof is periodically monitored by the Sub-Committee of the Financial Stability and Development Council (FSDC-SC). The key achievements under the NSFE during the year, include developing financial

¹ Reserve Bank's press release dated August 17, 2021 on 'Reserve Bank of India Introduces the Financial Inclusion Index'.

literacy content on basic financial education by the NCFE, involving the community in disseminating financial literacy in a sustainable manner and leveraging technology and social media to disseminate financial education and awareness, apart from effective inter-regulatory coordination.

IV.5 Against this backdrop, the rest of the chapter is organised into three sections. The implementation status of the agenda for 2021-22 is presented in section 2. It also covers the performance of credit flow to priority sectors and developments with respect to financial inclusion and financial literacy. The agenda for 2022-23 is provided in section 3. The chapter has been summarised at the end.

2. Agenda for 2021-22

IV.6 Last year, the Department had set out the following goals under *Utkarsh*:

- Implementation of the milestones under NSFI: 2019-24 (Paragraph IV.7-IV.8);
- Monitor implementation of recommendations of the “Expert Committee on Micro, Small and Medium Enterprises (MSMEs)” [Paragraph IV.9];
- Expansion of the CFL project by setting up 1,199 Centres for Financial Literacy (CFLs) covering 3,592 blocks across the country and increasing financial education levels across the country (Paragraph IV.10); and
- Complete the end-line impact assessment survey of the pilot project on CFL (Paragraph IV.10 and IV.27).

Implementation Status

IV.7 The NSFI was developed in consonance with all the concerned stakeholders to

deepen and sustain the financial inclusion process at the national level. The NSFI lays down action plans and milestones, with specific timelines, and suggests broad recommendations to achieve the same in a holistic manner, with six recommendations required to be implemented during 2021-22. The recommendations, *inter alia*, focused on creation of necessary infrastructure to support the digital ecosystem, strengthening inter-regulatory coordination for customer grievance redressal, while leveraging technology platforms and creating innovative approaches.

IV.8 Significant headway has been made in the area of strengthening digital infrastructure by way of institutionalising the Payment Infrastructure Development Fund (PIDF), launch of Digital Payment Index (DPI), implementation and scaling up the pilot project on expanding and deepening of digital payments ecosystem and laying of Optical Fibre Cable (OFC) under the *Bharat Net* project of the Government of India (GoI) to provide broadband connectivity to all 2.5 lakh *Gram Panchayats* across the country. With regard to inter-regulatory coordination relating to customer grievances, *Sachet* portal, having representation of all the sectoral regulators and the government, provides a common platform for such coordination. In a further impetus to redressal of grievances, all sectoral regulators have set up toll-free helpline numbers.

IV.9 The Expert Committee on MSMEs (Chair: Shri U. K. Sinha) had made 37 broad recommendations. Out of 21 recommendations pertaining to the Reserve Bank, 13 have been implemented, six have not been found feasible for implementation after examination and two are under consideration by the Reserve Bank and the government. The two major recommendations implemented during the year, include (i) increase

in the limit of collateral free loans to self-help groups (SHGs) under *Deendayal Antyodaya Yojana-National Rural Livelihoods Mission (DAY-NRLM)* from ₹10 lakh to ₹20 lakh; and (ii) issuance of guidelines on Scale-Based Regulation (SBR) for Non-Banking Financial Companies (NBFCs).

IV.10 The key findings of the end-line survey of the pilot CFL project, conducted across 80 blocks during the year to assess its efficacy, are covered in paragraph IV.26. As on March 31, 2022, a total of 1,107 CFLs were set up across the country, details of which are presented in Box IV.1.

Major Developments

Credit Delivery

Priority Sector

IV.11 The priority sector lending (PSL) for scheduled commercial banks (SCBs) stood at 42.8 per cent as on March 31, 2022. All bank groups achieved the prescribed PSL target of 40 per cent during 2021-22 (Table IV.1). In case any bank falls short in achieving priority sector targets/sub-targets, they are advised to contribute towards the Rural Infrastructure Development Fund (RIDF)

Table IV.1: Achievement of Priority Sector Lending Targets

(₹ crore)			
Financial Year	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
2020-21	24,16,750 (41.06)	14,33,674 (40.62)	1,99,969 (41.02)
2021-22*	26,23,666 (42.45)	16,87,138 (43.27)	1,94,031 (42.28)

*: Data are provisional.

Note: Figures in parentheses are percentage to adjusted net bank credit (ANBC) or credit equivalent of off-balance sheet exposure (CEOBE), whichever is higher.

Source: Priority sector returns submitted by SCBs.

and other funds administered by the National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India, Micro Units Development & Refinance Agency Ltd. and National Housing Bank.

IV.12 The total trading volume of priority sector lending certificates (PSLCs) registered a growth of 12.4 per cent and stood at ₹6.62 lakh crore in 2021-22 as compared to 25.9 per cent growth during the previous year. Among the four PSLC categories, the highest trading was observed in PSLC-general and PSLC-small and marginal farmers with the transaction volumes being ₹2.70 lakh crore and ₹2.29 lakh crore, respectively, in 2021-22.

Lending by Banks to NBFCs for On-Lending

IV.13 Recognising the role played by NBFCs in providing credit to the sectors at the bottom of the pyramid, which contribute significantly in terms of exports and employment, and with a view to augmenting the liquidity position of the NBFCs, the dispensation provided to banks to classify their lending to NBFCs [other than microfinance institutions (MFIs)] for 'on-lending' to the agriculture and MSE sectors as PSL was extended up to March 31, 2022.

PSL - Lending by Small Finance Banks (SFBs) to NBFC-MFI for On-Lending

IV.14 In view of the pandemic and to address the liquidity concerns of smaller MFIs, fresh credit extended by SFBs to registered NBFC-MFIs and other MFIs (societies, trusts, etc.) was allowed to be classified under PSL, provided these institutions are members of the Reserve Bank recognised Self-Regulatory Organisation (SRO). The above benefit is applicable to MFIs having a gross loan portfolio of up to ₹500 crore as on March 31, 2021. Under the scheme which extended up to March

Table IV.2: Targets and Achievements for Agricultural Credit

(₹ crore)

Financial Year	Commercial Banks		Rural Co-operative Banks		RRBs		Total	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
1	2	3	4	5	6	7	8	9
2020-21	10,81,978	11,94,704	2,25,946	1,90,682	1,92,076	1,90,012	15,00,000	15,75,398
2021-22*	12,05,488	12,91,454	2,30,543	2,17,848	2,13,968	2,00,590	16,50,000	17,09,893

*: Data are provisional.
Source: NABARD.

31, 2022, SFBs were permitted to lend up to 10 per cent of their total PSL portfolio as on March 31, 2021.

PSL - Increase in Limits for Bank Lending against Negotiable Warehouse Receipts (NWRs)/ electronic Negotiable Warehouse Receipts (eNWRs)

IV.15 In order to ensure a greater flow of credit to the farmers against pledge/hypothecation of agricultural produce and to encourage the use of NWR/eNWR issued by warehouses registered and regulated by Warehouse Development and Regulatory Authority, the PSL limit for loans against NWRs/eNWRs, for a period not exceeding 12 months was increased from ₹50 lakh to ₹75 lakh per borrower.

Flow of Credit to Agriculture

IV.16 The GoI sets the agricultural credit target every year for SCBs, regional rural banks (RRBs)

and rural co-operative banks. During 2021-22, against the target of ₹16.5 lakh crore, banks achieved 104 per cent of the target (₹17.09 lakh crore) as on March 31, 2022, of which, SCBs, RRBs and rural co-operative banks achieved 107 per cent, 93.7 per cent and 94.5 per cent, respectively, of their targets (Table IV.2).

IV.17 The Kisan Credit Card (KCC) provides adequate and timely bank credit to farmers under a single window for cultivation and other requirements, including consumption, investment, and insurance (Table IV.3).

Relief Measures for Natural Calamities

IV.18 Currently, the National Disaster Management Framework of the GoI covers 12 types of natural calamities under its ambit, viz., cyclone; drought; earthquake; fire; floods; tsunami; hailstorm; landslide; avalanche; cloud burst; pest

Table IV.3: Kisan Credit Card (KCC) Scheme

(Number in lakh, Amount in ₹ crore)

Financial Year	Number of Operative KCCs	Outstanding Crop Loan	Outstanding Term Loan	Outstanding Loan for Animal Husbandry & Fisheries	Total
1	2	3	4	5	6
2020-21	306.96	4,13,903	36,161	6,673	4,56,736
2021-22*	268.71#	4,33,413	29,309	13,561	4,76,283

*: Data are provisional.

#: The number of operative KCC accounts does not include non performing asset (NPA) accounts. As NPA accounts have increased during the year vis-à-vis last year, the number of operative KCCs has come down.

Source: Public sector banks, private sector banks and small finance banks.

Table IV.4: Relief Measures for Natural Calamities

(Number in lakh, Amount in ₹ crore)

Financial Year	Loans Restructured/ Rescheduled		Fresh Finance/ Relending Provided	
	No. of Accounts	Amount	No. of Accounts	Amount
1	2	3	4	5
2020-21	1.58	2,486	11.77	18,377
2021-22*	0.26	6,500	0.10	12,758

*: Data are provisional.

Source: State Level Bankers' Committees (SLBCs).

attack; and cold wave/frost. Accordingly, the Reserve Bank has mandated banks to provide relief where the crop loss assessed is 33 per cent or more in the areas affected by these calamities. The relief measures by banks, *inter alia*, include restructuring/rescheduling of existing loans and sanctioning fresh loans as per the emerging requirement of the eligible borrowers. During 2021-22, natural calamities were declared by three states, *viz.*, Maharashtra, Karnataka and Rajasthan, where financial assistance in terms of fresh loans and some dispensation by way of loan restructuring were made available to the affected people (Table IV.4).

Bank Credit to the MSME Sector

IV.19 Increasing credit flow to the MSMEs has been a policy priority for the Reserve Bank and

the government. On a year-on-year basis, the outstanding credit to MSMEs by SCBs increased by 13.4 per cent in March 2022 (10.6 per cent a year ago) [Table IV.5].

Financial Inclusion**Assignment of Lead Bank Responsibility**

IV.20 The assignment of lead bank responsibility to a designated bank in every district is undertaken by the Reserve Bank. As at end March 2022, 12 public sector banks and one private sector bank were assigned lead bank responsibility, covering 734 districts across the country.

Universal Access to Financial Services in Every Village

IV.21 Providing banking access to every village within a 5 km radius/ hamlet of 500 households in hilly areas is one of the key objectives of the NSFI: 2019-24. The milestone has been fully achieved in 25 states and 7 UTs as on March 31, 2022 and 99.94 per cent of the identified villages/hamlets across the country have been covered. Efforts are on to achieve the target for the remaining villages/hamlets.

Financial Inclusion Plan

IV.22 To ensure a systematic approach towards increasing the level of financial inclusion in a

Table IV.5: Bank Credit to MSMEs

(Number in lakh, Amount in ₹ crore)

Year	Micro Enterprises		Small Enterprises		Medium Enterprises		MSMEs	
	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding	No. of Accounts	Amount Outstanding
1	2	3	4	5	6	7	8	9
2020-21	387.93	8,21,027.77	27.82	6,62,998.50	4.44	2,99,898.53	420.19	17,83,924.80
2021-22*	239.81	8,87,800.05	22.07	7,25,822.77	3.23	4,09,011.46	265.10 [#]	20,22,634.29

*: Data are provisional.

#: There is a significant decrease in number of accounts due to mandatory registration on *Udyam* portal under new MSME definition.

Source: Priority sector returns submitted by SCBs.

sustainable manner, banks were advised to put in place Financial Inclusion Plans (FIPs). These FIPs capture banks' achievements on parameters such as the number of banking outlets [branches and business correspondents (BCs)], basic savings bank deposit accounts (BSBDAs), overdraft (OD) facilities availed in these accounts, transactions in KCCs and general credit cards (GCCs) and transactions through the Business Correspondents - Information and Communication Technology (BC-ICT) channel. The progress made on these parameters as at the end of December 2021 is set out in Table IV.6.

Financial Inclusion Index (FI-Index)

IV.23 To capture the extent of financial inclusion across the country, the Reserve Bank has constructed a composite FI-Index with three sub-indices, viz., FI-Access, FI-Usage and FI-Quality, incorporating details of banking, investments, insurance, postal as well as the pension sector in consultation with the government and respective sectoral regulators. The FI-Index computed for end-March 2021 stood at 53.9 as against 43.4 for end-March 2017, registering a compound annual growth rate (CAGR) of 5.5 per cent. Of the three sub-indices, the sub-index for Access has increased over the same period, from 61.7 to 73.3. Although, the sub-index for Usage and Quality have risen in value from 30.8 to 43.0 and from 48.5 to 50.7, respectively, these have remained below the overall FI-Index. The index values indicate the scope for improvement under usage and quality dimensions of financial inclusion.

Financial Literacy

Inclusion of Financial Education in the School Curriculum

IV.24 Developing financial literacy content for school children is one of the strategic

**Table IV.6: Financial Inclusion Plan:
A Progress Report**

Particulars	Mar 2010	Dec 2020	Dec 2021 ^{\$}
1	2	3	4
Banking Outlets in Villages-Branches	33,378	55,073	53,249
Banking Outlets in Villages>2000*-BCs	8,390	8,49,955	15,18,496 [^]
Banking Outlets in Villages<2000*-BCs	25,784	3,44,685	3,26,236
Total Banking Outlets in Villages – BCs	34,174	11,94,640	18,44,732 [^]
Banking Outlets in Villages - Other Modes	142	3,464	2,542
Banking Outlets in Villages -Total	67,694	12,53,177	19,00,523
Urban Locations Covered Through BCs	447	3,24,507	14,12,529 [^]
BSBDA - Through Branches (No. in lakh)	600	2,712	2,712
BSBDA - Through Branches (Amt. in crore)	4,400	1,21,219	1,18,625
BSBDA - Through BCs (No. in lakh)	130	3,672	3,919
BSBDA - Through BCs (Amt. in crore)	1,100	78,284	95,021
BSBDA - Total (No. in lakh)	735	6,384	6,631
BSBDA - Total (Amt. in crore)	5,500	1,99,503	2,13,646
OD Facility Availed in BSBDAs (No. in lakh)	2	59	64
OD Facility Availed in BSBDAs (Amt. in crore)	10	505	556
KCC - Total (No. in lakh)	240	490	473
KCC - Total (Amt. in crore)	1,24,000	6,79,064	6,93,596
GCC - Total (No. in lakh)	10	198	87
GCC - Total (Amt. in crore)	3,500	1,75,053	1,99,145
ICT-A/Cs-BC-Total Transactions (No. in lakh) [#]	270	23,289	21,095
ICT-A/Cs-BC-Total Transactions (Amt. in crore) [#]	700	6,14,987	6,62,211

*: Village population. #: Transactions during the year.

\$: Provisional data.

[^]: There is a significant increase in data reported by few private sector banks.

Source: FIP returns submitted by public sector banks, private sector banks and regional rural banks.

goals of NSFE: 2020-25. The content for the financial education workbooks for classes VI-X was prepared by Central Board of Secondary

Education (CBSE) in consultation with National Institute of Securities Markets (NISM), NCFE and all the four financial sector regulators². So far, 19 state educational boards have included/ partially included modules on financial education in their school curriculum. Efforts are being made by NCFE in coordination with the regional offices of the Reserve Bank to cover the remaining state educational boards.

Activities Conducted by Financial Literacy Centres (FLCs)

IV.25 As at the end of December 2021, there were 1,495 financial literacy centres (FLCs)³ in the country. A total of 73,900 financial literacy activities were conducted by the FLCs during 2021-22 (up to December 31, 2021). With a view to ensuring continued dissemination of financial education across the country during the pandemic, regional offices of the Reserve Bank undertook financial education programmes through virtual mode and leveraged local cable TV and community radio to spread financial awareness messages.

End-line Survey of Pilot CFL Project

IV.26 The end-line survey of the pilot CFL project across 80 blocks was conducted to assess its efficacy. The key findings were as follows:

- Households that were exposed to the programme showed a statistically significant higher score for financial literacy than those who were not exposed to the programme.

- Respondents who have had any exposure to the activities conducted under the CFL programme were more likely to use savings accounts in banks; this effect was stronger for individuals attending the CFL programme (*i.e.*, having “active” exposure).
- Households’ need for training is primarily in aspects that can be regarded as “first order” business – opening an account, filling forms, accessing bank services and government programmes and financial planning. By comparison, a very small number expressed a desire for training to use Automated Teller Machines (ATMs), online transactions, understanding investments, *etc.*

Expanding the Reach of CFL Project Across the Country

IV.27 Consequent to the implementation of the pilot CFL project in 100 blocks (including 20 CFLs in tribal blocks), steps were initiated during the year to expand the reach of CFLs to all blocks in the country in a phased manner (Box IV.1).

Observing Financial Literacy Week 2022

IV.28 The Financial Literacy Week (FLW) is an initiative of the Reserve Bank to promote awareness among the masses/various sections of the population on key topics through a focused campaign during the week every year. In 2021-22, FLW was observed during February 14 -18, 2022 on the theme of “Go Digital, Go Secure”, with focus on convenience of digital transactions,

² The workbooks have also been placed on the website of NCFE.

³ FLCs are established by banks and are manned by the financial literacy counsellors. The CFL project is the Reserve Bank’s endeavour to bring together non-government organisations (NGOs) and banks to enable innovative and community led participative approaches to strengthen financial literacy at the grassroot levels. The CFL project was piloted in 2017 (also refer to Box IV.1). Based on the experience gathered through a rigorous impact assessment exercise, the CFL project is being scaled up across the country in a phased manner.

Box IV.1 Expanding the Reach of CFL Project Across the Country

The CFL pilot project on financial literacy was initiated by the Reserve Bank in 2017 in nine states across 80 blocks in collaboration with eight sponsor banks and six NGOs for a three-year period, with funding support from Financial Inclusion Fund (FIF) of NABARD and the respective sponsor banks. The objective was to adopt community led innovative and participatory approaches to financial literacy. The project was subsequently extended to 20 tribal/economically backward blocks in three states in 2019 with funding from the Depositor Education and Awareness (DEA) Fund and sponsor banks.

Based on the experience gained from the pilot project, through feedback received from the stakeholders (banks and NGOs) and to promote financial literacy at grassroots level in a sustainable and participative manner, in line with NSFI: 2019-24, the project is being scaled up across the country in a phased manner to cover the entire country by 2024 with each CFL covering three blocks. Under Phase I of the scaled-up CFL project, 10 NGOs are associated with operationalisation with funding support from DEA Fund, FIF and 13 sponsor banks. As on March 31, 2022, a total of 1,107 CFLs were operationalised across the country.

Source: RBI.

security of digital transactions and protection of customers. During this week, banks were advised to disseminate information and create awareness amongst their customers and the general public. Further, the Reserve Bank also undertook a centralised mass media campaign during February 2022 to disseminate essential financial awareness messages on the theme to the general public.

3. Agenda for 2022-23

IV.29 The Department will pursue the following goals towards achieving greater financial inclusion and credit delivery:

- Implementation of milestones under NSFI: 2019-24 by leveraging on the developments in the FinTech space to encourage financial service providers to adopt innovative approaches for strengthening outreach (*Utkarsh*);

- Implementation of the milestones under NSFE: 2020-25 by undertaking capacity building of intermediaries involved in dissemination of financial education; and
- Scaling up of CFLs to cover the entire country (*Utkarsh*).

4. Conclusion

IV.30 In sum, during the year, the Reserve Bank continued with its focus towards financial inclusion by scaling up the CFL project across the country and taking forward the NSFI goals by working in close coordination with the stakeholders concerned. The FI-Index was developed as a metric to measure progress on financial inclusion. Going ahead, the implementation of the various milestones under NSFI and NSFE would continue to be pursued to sustain the momentum of financial inclusion.