

IV

CREDIT DELIVERY AND FINANCIAL INCLUSION

The Reserve Bank added further impetus to its financial inclusion initiatives during the year by scaling up the Centre for Financial Literacy project to cover the entire country and taking forward the National Strategy for Financial Inclusion (NSFI) goals by working in close co-ordination with the other financial sector regulators. Efforts toward ensuring access to financial services along with timely availability of adequate credit to vulnerable groups as well as productive sectors of the economy were sustained.

IV.1 The Reserve Bank continued with its focus on ensuring availability of banking services to all sections of society across the country, including strengthening the credit delivery system to cater to the needs of productive sectors of the economy, particularly agriculture, and micro and small enterprises. During 2022-23, a number of initiatives were taken for promoting financial inclusion and improving credit delivery.

IV.2 To achieve the financial inclusion goals and objectives, it is imperative that the extent of financial inclusion achieved is monitored on a regular basis and evaluated periodically. Accordingly, a composite financial inclusion index (FI-Index) was constructed and published for the first time on August 17, 2021. In the second iteration, there has been a year-on-year (y-o-y) growth of 4.6 per cent in the FI-Index. There has also been a considerable progress in providing banking access to every village within 5 kilometre radius/hamlet of 500 households in hilly areas, which is one of the key objectives of the NSFI: 2019-24. Further, in order to expand and deepen the digital payments ecosystem in the country, state level bankers' committees/union territory level bankers' committees (SLBCs/UTLBCs) have been identifying the districts in their respective states/UTs for making them 100 per cent digitally enabled. As at end-March 2023, 182 districts have been identified across the country under this programme.

IV.3 Against this backdrop, the rest of the chapter is structured into three sections. The implementation status of the agenda for 2022-23 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 2023-24 is provided in section 3. Concluding observations are set out at the end.

2. Agenda for 2022-23

IV.4 The Department had set the following goals for 2022-23 for enhancing financial inclusion.

- 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*) [Paragraph IV.5-IV.7];
- Scaling up of Centres for Financial Literacy (CFLs) to cover the entire country (*Utkarsh*) [Paragraph IV.7]; and
- Implementation of milestones under the National Strategy for Financial Education (NSFE): 2020-25 by undertaking capacity building of intermediaries involved in dissemination of financial education (Paragraph IV.8).

Implementation Status

IV.5 The NSFI has been put in place to synchronise and co-ordinate the efforts of all the stakeholders concerned to deepen the financial inclusion process at the national level. NSFI lays down action plans and milestones, and suggests broad recommendations, which, *inter alia*, focus on creating the necessary infrastructure to support the digital eco-system, strengthening inter-regulatory co-ordination for customer grievance redressal by leveraging technology, and creating innovative approaches.

IV.6 On the digital financial services front, implementation of several projects, *viz.*, setting up of Payments Infrastructure Development Fund (PIDF), Expanding and Deepening of Digital Payments Ecosystem (EDDPE), and *Bharat Net Project* of the Government of India, has been undertaken. In a bid to propel technology driven financial inclusion and ensure balancing of risk mitigation and promotion of innovation, the financial sector regulators have put in place an enabling framework for regulatory sandbox to harbour innovative approaches in a controlled environment to assess their efficacy for enhancing financial inclusion. Further, in order to facilitate testing of innovative products/services falling within the regulatory ambit of more than one financial sector regulator¹, a standard operating procedure (SOP) for interoperable regulatory sandbox (IoRS) has been put in place.

IV.7 With rapid digitalisation of financial services, concerted efforts have been made in

the financial literacy space to ease the usage of financial services over the digital platforms for the targeted segments. Accordingly, to promote process literacy along with concept literacy, the National Centre for Financial Education (NCFE) has developed a financial education handbook for micro, small and medium enterprises (MSMEs), and is also in the process of preparing a similar handbook for self-help groups (SHGs) and new entrants at the workplace. Significant progress has been made in scaling up of CFL² in a phased manner (also refer to Box IV.1). As on March 31, 2023, a total of 1,469 CFLs were operationalised across the country.

IV.8 One of the milestones under the NSFE: 2020-25 is capacity building of intermediaries involved in dissemination of financial literacy. The NCFE is the nodal agency looking after capacity building of intermediaries. It had conducted programmes for financial literacy centre (FLC)-in-charges and SEBI registered resource persons, senior bank officials and regional rural banks' literacy officers. These programmes are part of an on-going effort to ensure that the intermediaries are abreast with the latest developments.

Major Developments

Credit Delivery

Priority Sector

IV.9 Scheduled commercial banks' (SCBs') achievement under the priority sector lending as on March 31, 2023 stood at 44.7 per cent. Each of the bank-groups (*viz.*, public sector banks, private

¹ Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), International Financial Services Centres Authority (IFSCA), and Pension Fund Regulatory and Development Authority (PFRDA).

² 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. 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.

Table IV.1: Achievement of Priority Sector Lending Targets

(₹ crore)			
Financial Year	Public Sector Banks	Private Sector Banks	Foreign Banks
1	2	3	4
2021-22	26,49,180 (42.90)	16,85,806 (43.71)	2,08,107 (42.65)
2022-23*	28,55,355 (44.18)	19,93,388 (45.57)	2,10,578 (42.92)

*: 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.

sector banks and foreign banks) has also achieved the prescribed 40 per cent overall priority sector lending (PSL) target during 2022-23 (Table IV.1).

Trading in Priority Sector Lending Certificates (PSLCs)

IV.10 The total trading volume of PSLCs registered a growth of 7.7 per cent and stood at ₹7.13 lakh crore in 2022-23 as compared to 12.4 per cent growth during the previous year. Among the four PSLC categories, the highest trading was observed in PSLC-small and marginal farmers and PSLC-general with the transaction volumes being ₹3.21 lakh crore and ₹1.79 lakh crore, respectively, in 2022-23.

Lending by Banks to Non-Banking Financial Companies (NBFCs) for the Purpose of On-Lending

IV.11 To ensure continuation of the synergies between banks and NBFCs in delivering credit to the specified priority sectors, it was decided to permit categorisation of the following as PSL on an on-going basis: (a) lending by SCBs to NBFCs for the purpose of on-lending to 'agriculture' and 'micro and small enterprises'; and (b) lending by small finance banks (SFBs) to NBFC-Microfinance Institutions (MFIs) and other MFIs, which have a 'gross loan portfolio' (GLP) of up to ₹500 crore as on March 31 of the previous financial year, for the purpose of on-lending to individuals.

Flow of Credit to Agriculture

IV.12 The Kisan Credit Card (KCC) provides adequate and timely bank credit to farmers under a single window for cultivation, animal husbandry and fisheries, including for consumption, investment and insurance purposes (Table IV.2).

Bank Credit to the MSME Sector

IV.13 Increasing the flow of credit to the micro, small and medium enterprises (MSMEs) has been a policy priority of the Reserve Bank and

Table IV.2: 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 and Fisheries	Total
1	2	3	4	5	6
2021-22	268.70	4,33,408	29,306	13,559	4,76,273
2022-23*	282.96	4,61,391	37,551	19,694	5,18,636

*: Data are provisional.

#: The number of operative KCC accounts do not include non-performing asset (NPA) accounts.

Source: Public sector banks, private sector banks and small finance banks (excluding RRBs).

Table IV.3: Bank Credit to MSMEs

(Number in lakh, Amount in ₹ crore)

Financial 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	239.58	8,82,693.58	21.88	7,22,274.25	3.22	4,06,089.15	264.67	20,11,056.98
2021-22 (end-December 2021)	221.07	8,23,270.41	22.87	6,88,435.22	3.34	3,71,997.95	247.28	18,83,703.59
2022-23* (end-December 2022)	193.64	9,78,646.26	16.83	7,34,260.08	3.20	4,37,686.00	213.68	21,50,592.34

*: Data are provisional.

Source: Priority sector returns submitted by SCBs.

the Government of India. On a y-o-y basis, the outstanding credit to the MSMEs by SCBs increased by 14.2 per cent during 2022-23 (as at end-December 2022) as compared with 11.7 per cent in the corresponding period of the previous year (Table IV.3).

Financial Inclusion

Assignment of Lead Bank Responsibility

IV.14 The assignment of lead bank responsibility to a designated bank in every district is undertaken by the Reserve Bank. As at end-March 2023, 12 public sector banks and one private sector bank have been assigned lead bank responsibility, covering 760 districts across the country.

Universal Access to Financial Services in Every Village

IV.15 Providing banking access to every village within 5 kilometre radius/hamlet of 500 households in hilly areas is one of the key objectives of the NSFI: 2019-2024. The milestone has been achieved fully in 26 states and 7 UTs as on March 31, 2023, and 99.96 per cent of the identified villages/hamlets across the country have been covered. Efforts are being made to achieve the target for the remaining villages/hamlets.

Expanding and Deepening of Digital Payments Ecosystem

IV.16 For expanding and deepening the digital payments ecosystem in the country, all SLBCs/ UTLBCs were advised to identify district(s) in their respective states/ UTs and allot the same to a bank having significant footprint, which would endeavour to make the district 100 per cent digitally enabled in order to facilitate every individual in the district to make/ receive payments digitally in a safe, secure, quick, affordable and convenient manner. As on March 31, 2023, 182 districts have been identified (42 districts under pilot programme and 140 districts under scaled up programme) for making them 100 per cent digitally enabled. Out of these 182 districts, 87 (26 under pilot and 61 under scaled up programme) are 100 per cent digitally enabled as on March 31, 2023.

Financial Inclusion Plan

IV.17 Banks have been advised to put in place financial inclusion plans (FIPs) in order to enhance the level of financial inclusion of the country in a holistic and sustainable manner. These FIPs capture banks' achievements on parameters such as the number of outlets [branches and business

correspondents (BCs)], basic savings bank deposit accounts (BSBDAs), overdraft facilities availed in these accounts, transactions in KCCs and general credit cards (GCCs) and transactions through the business correspondents - information

Table IV.4: Financial Inclusion Plan: A Progress Report

Particulars	Mar 2010	Dec 2021	Dec 2022 ^s
1	2	3	4
Banking Outlets in Villages-Branches	33,378	53,249	53,159
Banking Outlets in Villages>2000*-BCs	8,390	15,18,496	13,83,569
Banking Outlets in Villages<2000*-BCs	25,784	3,26,236	2,95,657
Total Banking Outlets in Villages - BCs	34,174	18,44,732	16,79,226
Banking Outlets in Villages - Other Modes	142	2,542	2,273
Banking Outlets in Villages -Total	67,694	19,00,523	17,34,658
Urban Locations Covered Through BCs	447	14,12,529	4,38,333 [^]
BSBDA - Through Branches (Number in lakh)	600	2,712	2,704
BSBDA - Through Branches (Amount in crore)	4,400	1,18,625	1,23,653
BSBDA - Through BCs (Number in lakh)	130	3,919	4,082
BSBDA - Through BCs (Amount in crore)	1,100	95,021	1,16,777
BSBDA - Total (Number in lakh)	735	6,631	6,786
BSBDA - Total (Amount in crore)	5,500	2,13,646	2,40,430
OD Facility Availed in BSBDAs (Number in lakh)	2	64	89
OD Facility Availed in BSBDAs (Amount in crore)	10	556	546
KCC - Total (Number in lakh)	240	473	499
KCC - Total (Amount in crore)	1,24,000	6,93,596	7,66,694
GCC - Total (Number in lakh)	10	87	67
GCC - Total (Amount in crore)	3,500	1,99,145	1,85,915
ICT-A/Cs-BC-Total Transactions (Number in lakh)#	270	21,095	25,434
ICT-A/Cs-BC-Total Transactions (Amount in crore)#	700	6,62,211	8,15,598

\$. Data are provisional. *: Village population.

#: Transactions during the financial year.

^: Significant decrease is on account of select private sector banks.

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

and communication technology (BC-ICT) channel. The progress made on these parameters as at end-December 2022 is set out in the Table IV.4.

Financial Inclusion Index (FI-Index)

IV.18 A composite FI-Index has been constructed in consultation with the stakeholders concerned to capture the extent of financial inclusion across the country comprehensively. The FI-Index comprises of three broad sub-indices (weights indicated in brackets), viz., access (35 per cent), usage (45 per cent), and quality (20 per cent), with each of these consisting of a number of indicators.

IV.19 In the second iteration of the FI Index, there has been a growth (y-o-y) of 4.6 per cent from 53.9 in March 2021 to 56.4 in March 2022, with growth witnessed across all the sub-indices.

Financial Literacy

IV.20 To have an exclusive focus on financial literacy at the block level through brick-and-mortar presence, the pilot CFL project was initiated by the Reserve Bank in 2017 in 80 blocks across nine states and was subsequently extended to 20 tribal/economically backward blocks in 2019 (Box IV.1).

Inclusion of Financial Education in the School Curriculum

IV.21 Developing financial literacy content for school children is one of the strategic goals of NSFE: 2020-2025. NCFE along with other regulators and CBSE developed five educational workbooks for school students of class VI-X. So far, 22 state/UT educational boards have wholly/partially included modules on financial education in their school curriculum. Further, the Council for the Indian School Certificate Examinations (CISCE) has integrated financial education in their school curriculum. Efforts are being made by NCFE in coordination with the regional offices

Box IV.1**Centre for Financial Literacy (CFL): Progress Achieved and the Way Ahead**

The CFL project was initiated with the objective of exploring innovative and participatory approaches to financial literacy at the block level. Based on the experience gained from the pilot project and feedback received from the stakeholders, the CFL project has been scaled up in a phased manner. Funding support for the project is provided by Depositor Education Awareness Fund (DEAF), Financial Inclusion Fund (FIF) of the National Bank for Agriculture and Rural Development (NABARD) and sponsor banks. The financial literacy camps conducted by these CFLs aim to achieve certain end-outcomes such as accounts opened/reactivated,

pension and insurance linkages, and monitoring thereof, is done through data pertaining to the end-outcomes uploaded in the Automated Data Extraction Project (ADEPT) portal.

As per NSFI, one of the milestones is to expand the reach of CFL at every block in the country by March 2024. The outreach of the CFLs is now being scaled up across the country in a phased manner, whereby 1,469 CFLs covering 4,389 blocks have been set up as on March 31, 2023, and the entire country is expected to be covered by 2024.

Source: RBI.

of the Reserve Bank to cover the remaining state educational boards. Further, NCFE is also following up with NCERT for integration of financial education in their curriculum.

Activities Conducted by Financial Literacy Centres

IV.22 As at end-December 2022, there were 1,478 financial literacy centres (FLCs)³ in the country. During 2022-23, a total of 1,10,081 financial literacy activities were conducted by the FLCs up to December 31, 2022.

Observing Financial Literacy Week 2023

IV.23 The Financial Literacy Week (FLW) is an initiative of the Reserve Bank to spread awareness among the masses/various sections of the population on key topics through a focused campaign every year. During 2022-23, FLW was observed between February 13 and 17, 2023 on the theme of 'Good Financial Behaviour - Your Saviour', with a focus on creating awareness about saving, planning and budgeting, and prudent use of digital financial services. During this week, banks were advised to disseminate information and create awareness amongst its customers and the general public. Further, the Reserve Bank also

undertook a centralised mass media campaign to disseminate essential financial awareness messages on the said theme to the general public.

3. Agenda for 2023-24

IV.24 The Department has set the following goals for 2023-24:

- Setting up CFLs in the remaining blocks so as to cover the entire country (*Utkarsh 2.0*); and
- Working towards the deliverables of G20 Global Partnership for Financial Inclusion (GPMI).

4. Conclusion

IV.25 The impact of the sustained efforts on financial inclusion is evident from the notable increase in the FI-Index in its second iteration that was released for the year ending March 2022. During the year, the Reserve Bank continued its focus towards financial inclusion through implementation of initiatives to achieve the milestones set under the NSFI and NSFE. Setting up CFLs in the remaining blocks of the country will facilitate in scaling up financial literacy further in the country.

³ FLCs are established by banks and are manned by the financial literacy counsellors.