#Graam Shakti

Virtual Roundtable Discussion 3: Digital Financial Inclusion in Rural Economy

Roundtable Discussion & Strategic Recommendations

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Speakers:

Mr Shirkant Sinha,
Chief Executive Officer Telangana Academy for Skill and Knowledge (TASK)

Mr Hemant Adarkar,
Technology Advisor & Resident Senior Fellow at IDFC Institute

Dr Ravi Chandra,
Livelihood & Value Chain Specialist and State In-Charge, Uttar Pradesh, United Nations Development Programme

Priyanka Jain,
Policy Lead for Payments on WhatsApp and Financial Inclusion

Session moderator:

Osama Manzar
(Founder Director, Digital Empowerment Foundation)

About Graam Shakti Series

Meta in partnership with Digital Empowerment Foundation (DEF) is hosting a series of brown bag sessions and round table discussions, through the formats of interactive conversations and dialogue with the thought leaders from business, government, civil society and academia. The aim is to dissect every link in the value chain, right from the policymakers to the empowered entrepreneurs to develop result-driven strategies focused on achieving desired sustainable outcomes. The discussions focus on topics of national and regional importance under four pillars:

- Agriculture
- Handicrafts
- Tourism
- Retail

The sessions are organized to mainstream the public-private dialogue and collaboration at the national and regional level through consortia and advisory councils that would deliberate on the following themes:

- Shaping the Future of Digital Economy and Rural Communities
- Shaping the Future of Economic Growth and Social-Technology inclusion
- Shaping the future of Rural Infrastructure and Development
- Shaping the future of Technology and Local Enterprises and Entrepreneurship

Digital Financial Inclusion in Rural Economy

Context

84% of India's population who are 18 and above, from the rural part of the country have a bank account as per NSSO statistics[1]. In Urban India, those statistics stand at 85%, for those aged 18 and above. While almost 80% of the Indian population above 18 does have a bank account, nearly half of those (45 percent) accounts remain inactive due to the unavailability of suitable financial products. Therefore, the usage of such accounts is less than 50%. According to the report conducted by the Global Financial Literacy Excellence Center[2], only 24% of adults in India are financially literate. These numbers run even lower for several states with low educational literacy levels. The nominal percentage figure for financial literacy suggests a low level of financial inclusion in society at a large.

The RBI defines financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost." More broadly, this includes services including loans, equity and insurance at universal access and reasonable costs.[3]

The BRICS report from 2021 emphasises on how financial inclusion driven by technology is an important part in working to achieve the UN's Sustainable Development

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[1]https://pib.gov.in/PressReleasePage.aspx?PRID=1753935

[2]https://gflec.org/wp-content/uploads/2015/11/3313-Finlit_Report_FINAL-5.11.16.pdf?x22667

[3]RBI report on Financial Inclusion, https://rbidocs.rbi.org.in/rdocs/content/pdfs/NSFIREPORT100119.pdf

Goals (SDGs) by 2030[4]. This should, however not be coming at the cost of deepening the digital divide and lead to further social or economic exclusion.

A 2019 study by USAID noted that the past decade for financial inclusion has been one of the most successful ones worldwide, with over 330 million people having been included into financial sector.[5] This has been made possible by government policies such as the Prime Mininster Jan Dhan Yojana scheme where bank accounts have been created for many citizens who previously did not have them, and the Direct Benefit Transfer scheme where these new accounts have been made the default channel for transfer of welfare money. USAID claims that the linking of accounts to mobile numbers and the Aadhar has further enabled inclusion. [6] Policies such as demonetization has also hit the informal economy, while on the other side lending a push towards digitalisation. Fintechs were allowed to provide banking services with a new Payments Bank license.RBI and the government's focus on building infrastructure like the UPI is another context to look at these numbers.

Key challenges and opportunities

Low levels of financial inclusion in India: Access to credit is still a difficult reality for majority of the population in the country. Around 7% of Indians have access to formal credit. Though government has been able to provide deposit account facility to a large popuplation at the bottom of the pyramid, still most of the Jan Dhan

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[4]BRICS Digital Dinancial Inclusion Report, 2021 https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/BRICSDIGITAL7330275ABF0C4198B581897DF2C131CA.PDF

[5]India Digital Financial Inclusion: Journey Map Report - USAID, https://www.usaid.gov/sites/default/files/documents/15396/mSTAR_IndiaDFI_Report_DRAFT_FINAL.pdf

[6]USAID, ibid.

accounts[7] remain dormant[8]. The utilization or the activities that happen through the claimed number of PMJDY accounts need to be looked into to understand the actual state of financial inclusion in the country.

No culture of finance: There is almost no cultural embedding of finance across the country, and most people place their trust in physical currency. The general lack of access that persisted, and the issue of digital illiteracy also brings with it a lack of trust in machines, devices and transactions that overlook the ease of use factor. This is a more complex than just forcing down digital options of people, as there are deeper and more embedded social and cultural reasons for people's preference of cash for transactions.

Lack of Financial Education from schools: The curriculum in schools do not teach more than a very basic understanding on finance. This too is not revised and mostly comes from a time where most finances and transactions were non-digital in nature. This means that from a young age, there is less formal understanding on digital finances and other options of formal sources of credit. The general statistics of literacy rates adds to this.

Designing for specific, local needs: The digital tools for finance are often designed for people already with some knowhow on technology and apps, it often doesnt include the rural masses who are new to technology. It also often does not consider the diversities of languages that exist in the country.

Lack of credit schemes: There is a real lack of access to credit in ways that would both be reachable and also appeal to the rural masses. Either the transaction fees are too high, or it simply does not reach enough people.

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[7]https://pmjdy.gov.in/about

[8]https://www.thehindubusinessline.com/money-and-banking/almost-every-fifth-jan-dhan-account-inoperative/article30754738.ece

Exclusion from credit: Even today, exploitation from informal sources such as moneylenders is a very real problem. RBI's documents reveal how 42.9% of the country still borrows from moneylenders or loansharks, who charge high interests, often leading them into debt-traps.[9]

[9] https://rbidocs.rbi.org.in/rdocs/Publications/PDFs/05WS080513_F.pdf

Strategic recommendations to Meta

In this context, two critical questions are emerging:

- How do we overcome the barriers of financial or digital literacy and its adoption?
- How can we increase credit penetration to the rural economy?

To address these questions, following strategies are recommended:

Inclusion of finance in curriculum, and digital undertakings to increase awareness: To tackle the basic cultural embedding that most people of the country is used to physical currency, there needs to be more done than what was already happened with electronic payments since 2016. The consideration of finance integrated within the culture is lacking because of which, they are talks of literacy, education, scaling, etc. as it is not a part of the domestic growth, nor is it preached by parents, and the schooling education too does not account for it. It is viewed as a subject to teach or learn, like mathematics or economics and is not embedded culturally. That is one of the big gaps and could potentially be undertaken through digital means. Dissemination and publicising of messages to spread financial literacy, in as many local languages as possible is can be one way to do so. All the corporative, SHGs, and other clusters can be targeted for partnership to penetrate financial literacy

Facilitating the last mile of credit is necessary, beyond existing schemes. Float based concepts of credit to include more people. This includes more and better products for the rural masses with lower transaction fees. There should be models which examine the possibility of giving credit to smaller artisans and businesses, including those without a credit rating, through mobile phones and taking into account safety and privacy.

There are already existing ecosystems and solutions. **Simple solutions from existing ecosystems** can drive inclusion. Last mile access utilising these ecosystems is how to get there. These existing ones might need tweaking to be appealing to the rural masses.

Barriers to credit: From our work and activities on the ground, DEF has trained 30,000 women to become digital entrepreneurs. During this, we have understood that with sufficient access to smartphones and connectivity, digital financial literacy is not as hard to spread. Being connected, along with ownership of the device, allows one to believe they have complete control over the device. This is an important step. However, despite being financially literate and being an entrepreneur, it is not guaranteed or it does not mean one is able to redeem credit immediately. The barriers are often practical, non-digital, bureaucratic and related to trust and decision making, and this needs to be addressed. However, women are easier to approach as they are the centre of all domestic responsibilities. Policies, programmes and schemes to support women entrepreneurs are necessary.

DIGITAL EMPOWERMENT foundation

For any further information, please Contact:

Digital Empowerment Foundation
House No. 44, 2nd & 3rd Floor (Next to Naraina IIT Academy)
Kalu Sarai, (Near IIT Flyover), New Delhi – 110016

Tel: +91-99999-05949 / Fax: 91-11-26532787