

# INCLUSIVE FINANCE INDIA REPORT 2020

An ACCESS Publication



*Edited by*

**Tamal Bandyopadhyay**



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**Tamal Bandyopadhyay**

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# Solving a Global Challenge from the Bottom Up: Water and Sanitation Micro-lending

Vedika Bhandarkar

Manoj Gulati

9

## THE EMERGENCE AND SIGNIFICANCE OF WATER SUPPLY AND SANITATION LENDING

### Why Water and Sanitation?

Access to water and sanitation is a fundamental need. However, the development community globally is struggling to achieve this at the household level. Data from the World Health Organization indicate that 785 million people still lack access to safe water (WHO 2019a) and 2 billion people lack access to a toilet (WHO 2019b).

The progress made during Swachh Bharat Mission (SBM) to make India open defecation free (ODF) needs to be maintained as a significant portion of the population would require the upgradation/maintenance of the toilet in the years to come. If water and sanitation problems are not addressed, India will not achieve the Sustainable Development Goal 6 (SDG 6): access to safe water and sanitation for all (United Nations n.d.).

In most cases, if families do not have an in-house water supply, they obtain water from sources that are often unsafe or from informal vendors at an exorbitant price. Access to water at the household level can also ensure that proper hygiene practices, like hand washing, can be appropriately followed and maintained—a key to fighting the spread of infectious diseases.

Women and girls are disproportionately affected by the lack of household water and sanitation facilities. They are often tasked with collecting water, requiring them to travel distances with heavy vessels, which can prevent them from attending school and have prolonged physical impacts. To relieve themselves in private, women and girls without household facilities

travel to discrete locations before sunrise and after sunset.

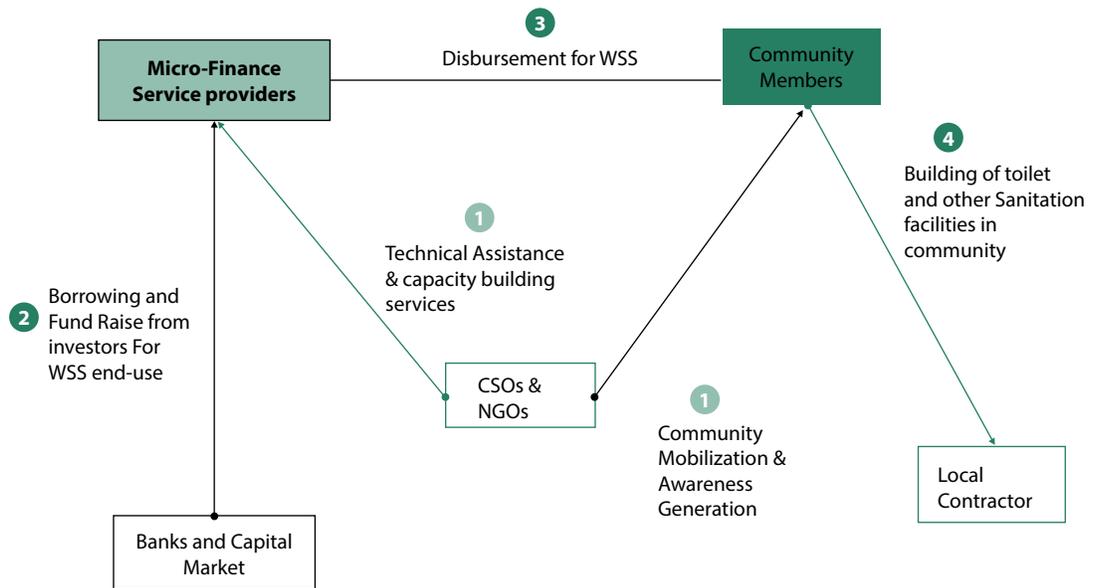
By having water and sanitation facilities at home, women and girls can have privacy, feel safe, pursue income-generating opportunities, attend school, be less disturbed during menstruation, pregnancy and monsoons, and have more time for household priorities.

Having household water and sanitation can empower families to live better lives by enabling higher attendance at school, improving health and reducing health expenditures, and expanding the time available for economic pursuits. Although significant progress has been made globally and even more demonstrably in India over the last two decades due to the efforts of SBM (refer to Section 9.4), there is still a long way to go. The bigger question is how do people living in poverty have access to these services?

### What Is Water Supply and Sanitation (WSS) Lending?

WSS lending is a demand-driven solution for household water and sanitation access that encourages people using microloans to construct or connect water and sanitation assets at home. The lack of credit or capital options is often a roadblock for people living in poverty who lack savings to pay upfront construction costs. WSS lending provides an affordable solution to those living in poverty who seek to finance a solution to their challenges.

While WSS lending may sound obvious, micro-lenders tend to prefer income-generating loans because of reservations about the ability of the borrower to repay. However, these concerns do not take into account the high cost of purchasing water from tankers or other private vendors or days/



**Figure 9.1:** Model for WSS Lending for Households

hours of work that are forfeited when someone has to collect water instead of working or is ill from a waterborne disease. Figure 9.1 depicts the model of WSS household lending by micro-lenders.

**What Is the Gap We Are Trying to Fill?**

SDGs 6.1 and 6.2 call for universal access to safe water and sanitation, with a clear focus on first reaching the most marginalized people. The World Bank estimates that achieving these targets will cost approximately \$114 billion per year between 2016 and 2030. This is only the cost of constructing new infrastructure—not the cost of operating and maintaining infrastructure over time. This amount is twice the current level of investment. This simply means that there is not enough money from traditional sources (government and development actors) to achieve these goals.

New solutions are needed to fill this funding gap. Providing financing options (i.e., micro-credit) that enable people living in poverty to construct their WSS solutions serves as a powerful tool to bridge the financing gap, in addition to government and development assistance.

Water.org, an international non-profit organization, has been motivating financial institutions to lend for WSS since 2004 and the demand for WSS loans has continued to grow (see Section 9.3). A 2020 study of the total market size for sanitation lending in India is ₹820 billion, of which, controlling for income and other factors, ₹230 billion is addressable in the short term (ADB, Water.

org and Dalberg 2020). This suggests that lenders engaged in sanitation lending will tap into a mostly underserved market that has the dual advantage of providing social benefits to those living in poverty.

Over the years, an increasing number of MFIs in India started recognizing water and sanitation as a key ingredient to the health and economic wellbeing of their clients. We expect the availability of more dedicated lines of credit to this sector.

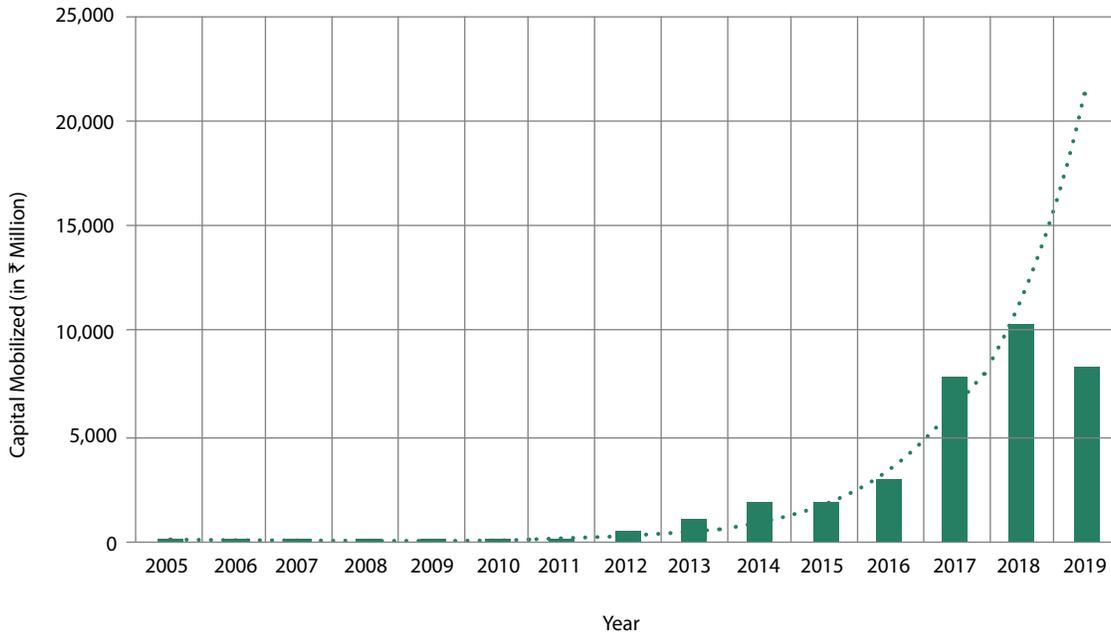
—Mr P. Satish,  
Executive Director, Sa-Dhan

**FROM NICHE TO SCALE: UPTAKE OF WSS LENDING**

**WSS Lending Growth Rate of Water.org Partners in India**

All the data in this section are from Water.org’s partners in India.

The growth of WSS lending depicted in Figure 9.2 shows a substantial increase in the amount disbursed for WSS lending , growing from a modest ₹12 million in 2005 to more than ₹8,400 million in 2019. Although the 2018 non-banking financial company (NBFC) crisis led to a slight decline in 2019, overall Figure 9.2 shows a consistent upward

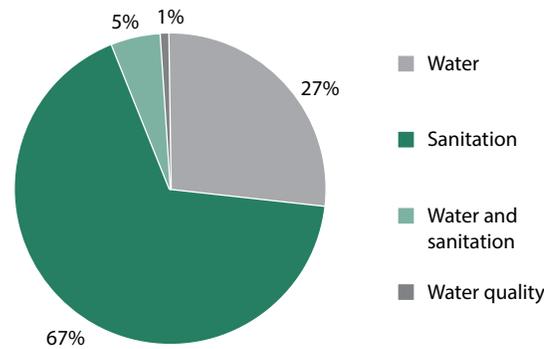


**Figure 9.2:** WSS Lending Growth Rate for Water.org India Partners from 2005 to 2019

trajectory with significant growth after 2014, which coincides with the launch of SBM discussed in the next section.

Over the last 15 years, financial institutions have often, in partnership with the government, reached more than 13 million people in India through the disbursement of more than 2.8 million loans to families in need of safe water and sanitation. As trust in this model has grown, more lenders are establishing their WSS lending portfolios.

water and sanitation loans make up 5 per cent and water quality loans are at 1 per cent. The demand for sanitation loans has picked up from 2014 onwards with the launch of SBM (Fig 9.3).



**Figure 9.3:** India: Product Composition

With WSS loan offerings, our purpose is to better the living conditions of people at the base of the pyramid and create awareness. In the near future, I expect greater acceptance for WSS portfolio among global impact investors.  
 —Mr Vivek Tiwari,  
 Managing Director & CEO, Satya MicroCapital

**WSS Loan Details**

As of 2020, the data indicate that a WSS loan can range from ₹1,000 to ₹50,000. The effective interest rate for WSS lending varies between 10 per cent and 23 per cent.

Women borrowers constitute 99 per cent of the borrowers for WSS loans.

Sanitation loans comprise 67 per cent of the total WSS loans disbursed while water falls at 27 per cent of the total loans. Out of the remaining 6 per cent,

Some of the purposes for which loans are made by financial institutions include the following:

- Connection of household drinking water
- Borewell or hand pump for potable household water
- Construction of a household toilet
- Water filters or purifiers
- Retrofitting/upgradation of an existing toilet or the addition of a bathroom
- Construction of household rainwater harvesting systems

- Construction of toilet for special needs members such as the elderly, pregnant women and people living with disabilities or injuries

While some of the purposes, such as the retrofitting/upgradation of toilets, have seen an increasing demand among borrowers, others, such as the construction of rainwater harvesting systems, are expected to be a growing product category due to factors such as water scarcity. Similarly, 'special needs or accessible family toilet' is another emerging product category, the demand for which is expected to rise steadily. Also, an estimated 70 per cent of the surface water resources in India are polluted (ADRI n.d.) leading to a growing market for water filters/purifiers.

### Economic Effects on Borrowers

An analysis of WSS loans made by financial institutions shows that water and sanitation is not just a consumption loan, but an income-enabling loan that helps enhance household income by improving health, hygiene, productivity and safety. WSS lending makes economic sense to borrowers as access to safe water and sanitation leads to reduced healthcare expenditure and more productive hours, leading to increased household incomes. It also indirectly benefits financial institutions as it leads to discipline in repayment, retention of client and local appreciation for providing loans that help people with basic needs.

#### Customer Testimonial

We did not have a toilet. It was disheartening to see my family relieve themselves out in the open. For safety and privacy reasons, we had to go to nearby farms and relieve ourselves. Several times, we were verbally abused by the farm owners, but there was not much I could do about it. We are lucky that a snake did not bite my daughter. It was a horrifying experience that I would never want any of my family to go through again.

The snake incident solidified my reasoning to get a loan and build a toilet. I am thankful for the ₹15,000 loan that helped me immensely. I can finally relax and not worry about the safety of my family when they go and relieve themselves.

—Mrs Phula Devi, MFI customer

## THE ENABLING ENVIRONMENT FOR WSS LENDING

### The History of Sanitation Policies in India

In India, the conversation about sanitation had begun before Independence. Mahatma Gandhi and Swami Vivekananda emphasized the need for sanitation for the nation to prosper. Well after Independence, in the mid-1980s, the central government launched its first subsidy-based sanitation programme—the Central Rural Sanitation Programme. Since then, several programmes have been renamed and relaunched, including Total Sanitation Campaign in 2001, Nirmal Bharat Abhiyan in 2007 and finally SBM in 2014. What made SBM unique was the focus on behavioural change and awareness-raising practices on sanitation. The World Bank also granted a \$1.5 billion loan to finance the SBM initiative, which they identified as the largest ever sanitation drive in the world (World Bank 2018). The project specifically supports the rural component SBM-G (Grameen), as more than 60 per cent of India's population resides in rural areas (World Bank 2015).

On 2 October 2019, reflecting upon the great progress made by the country, the government announced the achievement of the ODF status. The government is now focusing on ensuring the sustainability of progress (ODF-S) and has recognized that affordable financing is a critical tool in ODF-S. Affordable funding is recommended under the Rural Sanitation Strategy (2019–2029; Ministry of Jal Shakti 2019).

### The History of Water Policies in India

One of India's first water policy, the National Water Policy, was launched in 1987 (Ministry of Jal Shakti n.d.). It focused on drinking water, water conservation and irrigation. In 2009, the National Rural Drinking Water Mission was launched and focused solely on drinking water in rural areas of India, which was then renamed Jal Jeevan Mission (JJM) in 2019 (Irava and Kapur 2019). JJM aims to provide piped water connections to all rural households by 2024: *har ghar nal se jal* (water to every household).<sup>1</sup>

### Policy Changes to Create the Enabling Environment for WSS Lending

Government schemes and the Reserve Bank of India (RBI) policies have been critical components for the growth of WSS lending in the past 15 years. A financial environment that allows and encourages WSS lending is required to increase the availability of credit within the sector.

### **Incorporating Water and Sanitation within Priority Sector Lending**

In July 2015, the RBI revised the priority sector lending (PSL) guidelines, bringing in sanitation facilities, including the construction/refurbishment of household toilets, into the social infrastructure priority sector. The same category also included 'bank credit to microfinance institutions (MFIs) extended for on-lending to individuals and members of SHGs/JLGs for water and sanitation facilities as eligible'. This encouraged commercial banks to start lending for water and sanitation through MFIs or SHG-bank linkages. The inclusion of WSS within PSL was the first critical step in creating an enabling environment that encouraged WSS lending as a complement to SBM efforts.

### **Inclusion of Toilet Construction in the National Rural Livelihood Mission**

The inclusion of water and sanitation lending in PSL reflected the national priorities to promote SBM towards achieving its goal of making India ODF. Following this success, the RBI updated its National Rural Livelihood Mission (NRLM) programme policy in July 2017 to include toilet construction as an eligible category towards which participating self-help group (SHG) members can avail loans (Reserve Bank of India 2017). This inclusion meant that banks could lend through the NRLM, a flagship programme of the Ministry of Rural Development that focuses on building financial inclusion and women's economic empowerment through the SHG networks. NRLM-supported SHG members are entitled to preferential interest rates on loans for eligible categories. Currently, there are 6.4 million NRLM-supported women-based SHGs in India.

We believe that by collaborating with stakeholders to institutionalize affordable financing for WSS within national and state policies, and by building demand and capacity for innovative WSS financing systems such as affordable loans to households, we can hope to bring both policy change and implementation capability to achieve safely managed drinking water, sanitation and hygiene for all in the context of the SBM-Phase 2 and the JJM flagships of the Government of India.

—Nicolas Osbert, Chief, Water, Sanitation, Hygiene (WASH), UNICEF India

## **TAKING A STEP AHEAD: AREAS OF CONVERGENCE**

### **The Entry of Banks and Business Correspondent Model**

#### **Private and Small Finance Banks**

Commercial and small finance banks have a market share of more than 50 per cent in the overall micro-lending portfolio (CRIF 2020). Their growing customer base, coupled with the change in PSL guidelines, has generated attention around WSS lending. An increasing number of banks have integrated WSS lending as part of their microfinance portfolio. By offering WSS loans to existing customers, some banks have kept their customer acquisition costs low. The business correspondent model has emerged as a preferred channel for private banks to reach out to microfinance borrowers in remote areas, including borrowers in need of WSS.

As a bank, we have always believed in making a long-term positive impact by creating sustainable opportunities in the areas of livelihood and healthcare, in the underserved communities. In these testing times, it becomes all the more crucial to establish interlinkages between livelihood financing and lending for WSS facilities, to ensure a quick rebound of the economy with minimal health implications.

—Mr Srinivas Bonam, Head, Inclusive Banking Group, CCBG Commercial Banking, IndusInd Bank

#### **Public Sector Banks**

Public sector banks (PSBs) continue to provide WSS loans to SHG members who are supported and credit-linked by self-help promoting institutions (SHPIs). Some of the prominent SHPIs working in the WSS lending area are Development of Humane Action (DHAN) Foundation, Professional Assistance for Development Action, Mahila Arthik Vikas Mahamandal and Shri Kshetra Dharmasthala Rural Development Project. An example of this SHPI-bank linkage model is DHAN Foundation's tie-ups with 36 commercial and rural regional banks. PSBs such as State Bank of India, Indian Bank, Canara Bank, Union Bank of India and others

have been instrumental in mobilizing credit for SHG members for their WSS requirements (DHAN Foundation n.d.)

### **State Rural Livelihood Missions**

On the demand side, State Rural Livelihood Missions (SRLMs) promote financial literacy and raise awareness of the availability of affordable WSS funding for SHG. On the supply side, they coordinate and develop strategic partnerships with major banks at various levels to create an enabling environment for members to benefit from financing (Umed n.d.). SRLMs in Maharashtra, Madhya Pradesh, Bihar and Andhra Pradesh have been especially noteworthy in their efforts to encourage and support members to avail loans for WSS.

The Maharashtra State Rural livelihood Mission (MSRLM) or Umed is actively involved in the state's WSS landscape.

On the demand side, Umed is working with UNICEF and Water.org to promote WSS financing at state and district administration level and capacity building through training and information, education and communication materials for Umed's master trainers. On the supply side, Umed is engaging with MFIs such as Annapurna and Agora, public and private banks such as Bank of Maharashtra and IDFC FIRST and ICICI to ensure that the WSS credit needs of SHG members are met.

### **Collaboration with Other Multilateral Agencies**

The growing demand for water and sanitation structures has led to innovative collaboration among various multilateral agencies, financial institutions and government entities.

### **Women + Water Alliance: An Ecosystem Approach**

The Women + Water Alliance is a public-private partnership led by the United States Agency for International Development (USAID) and Gap Inc., a global apparel retailer. Partners include CARE, the Institute for Sustainable Communities, the International Center for Research on Women, the Institute for Development Impact, WaterAid and Water.org

Through an ecosystem approach, the Women + Water Alliance is opening up lending channels for families living at the base of the economic pyramid to access credit for water and sanitation improvements by working with a number of financial partners, including MFIs, PSBs and private sector banks and

government entities (e.g., SRLM). In Maharashtra and Madhya Pradesh, the design and execution of partnerships with the government and NGOs has led to improved financial and operational capacity of SHPIs to mobilize additional capital to extend and improve WSS services for women living at the base of the economic pyramid.

### **National Bank for Agriculture and Rural Development**

National Bank for Agriculture and Rural Development (NABARD) has been a key player in the mission to support the government on SBM with the necessary funds for the construction of household toilets.

At Gap Inc., we have a responsibility and an opportunity to address water issues because it is a critical natural resource for our business. Through the USAID Gap Inc. Women + Water Alliance, we aim to improve the health and well-being of women and communities touched by the apparel industry in India, by enabling sustainable access to safe water, sanitation, and hygiene (WASH), and by empowering women with the agency and self-efficacy to advance their WASH needs.

—Mr Saswat Rath, Deputy Chief of Party (W+W Alliance), Gap Inc.

In support of the government's ODF-S mission, NABARD launched a pan-India sanitation literacy campaign, leveraging its rural Indian reach through its partner agencies (NABARD n.d.).

On 2 October 2020, NABARD introduced a special refinancing facility for financial institutions (banks, regional rural banks, small finance banks, NBFCs and MFIs) against their water, sanitation and hygiene portfolios. The funds allocated under this scheme for FY 2021 are ₹800 million. With this announcement, NABARD has committed itself to promoting affordable financing through financial institutions. The refinancing facility is expected to benefit NBFCs and MFIs by providing timely liquidity and making funds available for on-lending for water and sanitation purposes.

### **Water Equity and Other Impact Investors**

Impact investing is a rapidly growing investment approach that generates measurable, social impact

NABARD supports the Government's mission of ensuring sustainable and healthy lifestyle in rural areas by supporting their WASH, while also recognising the importance of financial institutions in providing affordable financing to vulnerable communities who do not have access to WASH facilities. The focus is to sustain the gains from SBM and to support JJM to cover all households with functional tap connections by 2024. The special refinancing scheme for WASH will catalyse much-needed financing to millions of households and micro-entrepreneurs from NBFCs and banks for creating WASH-related assets which have become even more relevant in the COVID-19 environment.

—Dr G. R. Chintala, Chairman,  
NABARD

alongside financial returns. WaterEquity is the first impact investor exclusively focused on the water and sanitation sector. They invest in financial institutions and enterprises in emerging markets providing access to safe water and sanitation to low-income consumers while offering investors an attractive return. Debt investors such as Caspian, Svakarma, Developing World Markets and others are also investing in WSS sector.

### Learning from around the World: Indonesia

In Indonesia, piped water supply to households is carried out through government-backed community-based organizations (CBOs) in rural and peri-urban areas. The government has implemented a national programme called the Community Based Drinking Water and Sanitation Program (PAMSIMAS), which focuses on rural regions as well as on the outskirts of cities. Through this programme, the government provides the stimulus to develop community-based water supply and sanitation systems by supporting the costs of the initial infrastructure.

A unique financial model in which PAMSIMAS has collaborated with UNICEF and Water.org has made it possible to strengthen and finance CBOs in the form of capacity building, technical assistance and loan guarantees. The model also focused on CBOs availing loans through financial institutions for building WSS infrastructure. These targeted efforts have led to increased piped water access across rural and peri-urban geographies.

The Indonesian water supply landscape is an example of how a multi-stakeholder approach can result in overcoming of infrastructural and funding challenges and lead to the strengthening of existing institutions. This can give interesting insights as India strives to provide piped water connection to rural households.

### WSS Lending during a Pandemic

With the onset of the pandemic, communities without water and/or sanitation facilities at home may face a higher risk of infection as they continue to use shared facilities thereby not being able to practise social distancing and perform proper hygiene practices (hand washing) at home. Although COVID-19 has led to several economic challenges for communities, it also sheds light on the importance of access to water, sanitation and improved hygiene at home.

As public health messaging centres around social distancing and the need to maintain good hand washing as a critical preventative measure, financial institutions have found that communities have become more aware of the link between access to household water and improved sanitation and the spread of the virus. This increase in understanding is expected to trigger increased and sustained demand for WSS loans in the near future as households race to prepare themselves for the next wave of COVID-19 or the outbreak of another deadly virus.

### The Future of WSS Lending

There are multiple arguments to be made in the favour of the adoption of WSS lending.

At the macro level, climate change is disrupting weather patterns, leading to extreme weather events, unpredictable availability of water, exacerbating water scarcity and contaminating water supplies (UNICEF 2020b). These changes have a disproportionate impact on poor communities who lack the resilience to rebound from extreme events and disasters.

At the micro level, WSS lending enables borrowers to build or upgrade WSS systems, thereby leading to health, dignity, economic and social impact. With access and use of improved sanitation facilities, a study has shown that in 2018–2019, the poorest households saved ₹45,910 in rural areas and ₹61,777 in urban areas per year (UNICEF 2020a).

The improved social and economic health of borrowers translates into a better quality portfolio for financial institutions, leading to lower default rates and better repayment rates. This is also in line

with the experience of Water.org's, which shows that WSS lending works as a viable business for financial institutions. With repayment rates of more than 99 per cent, the risk of default by borrowers is low.

From a lender's perspective, other than excellent repayment rates, the lower customer acquisition cost also makes WSS lending attractive. By mainstreaming the WSS loan product as part of their overall microfinance portfolio, like income-generating group or individual loans, financial institutions can sustain financial gains while keeping costs low.

With the success of SBM, the government's focus is now on sustaining the ODF status (ODF-S) and ensuring that the gains achieved are sustained. The government is also focused on each household having a piped water connection (JJM). While the population of India continues to grow, with

We at CreditAccess Grameen strive to address the adverse impact of lack of safe water and unsanitary practices on the health of our customers. Our WASH initiative creates awareness at different levels and offers solution through access to finance. We consider WASH loans as part of core lending, knowing well that solving WASH issue is directly income enabling.

—Mr Udaya Kumar, Managing Director and CEO, CreditAccess Grameen

looming climate change and the pandemic sending shock waves throughout the nation, there will be continued demand for WSS lending.

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# Technical Partner



For more than 25 years, we've made it our mission to bring water and sanitation to the world. Founded by Gary White and Matt Damon, we pioneer market-driven financial solutions to the global water crisis to change lives.

In 2009, actor & philanthropist Matt Damon and master engineer Gary White were independently working to break down barriers between people and access to safe water. A common goal to pioneer smart solutions to the water crisis brought them together as co-founders of Water.org. Gary and Matt established an organization that mixes the understanding of global economic development dynamics with the sheer will to make access to safe water and sanitation universal. They believe that water is the way to empowering a bright future for all. That's the vision, and the legacy of Water.org to change lives and solve one of the most pressing crises of modern times.

The Inclusive Finance India Report is an in-depth, well researched, well analysed evidence on how the financial inclusion agenda has progressed at various levels and across all the broad themes. The report covers a review of the performance of diverse institutional structures and delivery models in inclusive finance – the commercial banks, Regional Rural Banks and Cooperative Banks, the new specialised banks, non-bank finance companies, self-help groups and the microfinance institutions.

The report covers the initiatives in digital technology that assess the last mile delivery challenges and provides an overview of some new initiatives. The report also tracks the performance of programmes and scheme of the government to promote financial inclusion, as also contribution and new initiatives of large apex institutions and regulators. The report aims to inform the policy development process on inclusive finance, inform banks and investors both national and international, highlight positive impact of various institutions, models and initiatives and identify policy and practice gaps.

The report is authored by experts from the financial inclusion landscape. The methodology of development of the report includes consultations with the RBI, Ministry of Finance, Banks, apex financial institutions, technology services providers, diverse delivery models and technical agencies.

The Inclusive Finance India Report is the best reference book on the annual trends and progress of financial inclusion in India, covering a comprehensive data based analysis of all streams of financial inclusion with most current information in terms of numbers and developments; a must for every stakeholder interested and involved in financial inclusion.



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