Recent policy efforts have taken a more holistic approach to financial inclusion, with greater use of digital technology in India: IMF

According to a report by IMF on Financial Inclusion in Asia and Pacific, India's financial inclusion approach has traditionally focused on channeling credit to weaker segments of the economy. Various schemes and policy initiatives were used to target rural areas and underserved populations, including minimum priority-sector lending requirements for commercial banks. In addition, India relied heavily on specialized development financial institutions, intended to support industrial growth via project funding until the 2000s.

Recent policy efforts have taken a more holistic approach to financial inclusion, with greater use of digital technology in India. The priority has been to (1) rapidly expand access to formal bank accounts, (2) create incentives for boosting transactional volumes of financial products and expanding add-on products, and (3) expand the availability of credit to underserved sectors. This approach relies on the integration of key enablers, including access to formal accounts (Jan Dhan Yojana), unique biometric identification of each citizen (Aadhaar), and reliance on mobile technologies (Mobile).

Agricultural Insurance: Inclusion with a Fiscal Cost

China and India have developed two of the largest agricultural insurance schemes in the world. Both countries have highlighted these programs as financial inclusion policies to increase access to financial services. China's Agricultural Insurance Program covers $330 billion of agricultural production and receives $6.3 billion in annual subsidies (China Insurance Regulatory Commission 2016). India's Prime Minister's Crop Insurance Program also receives public subsidies, with the amount capped at 50% of the premium value, amounting to about $1.4 billion in 2017–18.

Financial Inclusion Index- Ranking, 2015

	Country	Rank
Fourth Quartile	Singapore	1
	South Korea	2
	Japan	3
	Maldives	4
	Thailand	5
	Brunei	6
	Indonesia	7
	Tonga	8
Third Quartile	India	9
	China	10
	Sri Lanka	11
	Philippines	12
	Bangladesh	13
	Samoa	14
	Malaysia	15

Source: PHD Research Bureau, data compiled from IMF

The quartiles are based on the country rankings

Greater financial inclusion and enhanced access to credit have been a long-standing policy priority in India. Broader availability of financial services has been seen as critical for curbing poverty and inequality, and boosting domestic growth.

Established in the 1950s and 1960s, these institutions—funded by domestic bond markets; multinational institutions; the RBI finance window; and budgetary provisions—were deemed unviable by the 1990s. Thus, most were converted into commercial banks in the early 2000s and current DFIs—including the National Bank for Agriculture and Rural Development (NABARD) and the Small Industries Development Bank of India (SIDBI)—mostly focus on refinancing for rural economic activity, and micro, small, and medium enterprises (MSMEs).

Recent policy efforts have taken a more holistic approach to financial inclusion. Steps have broadly followed three key dimensions: (i) rapidly expanding access to formal bank accounts; (ii) creating incentives for boosting transactional volumes of financial products and expanding add-on products; and (iii) making further efforts to expand the availability of credit to underserved sectors via the setting up of Micro Units Development Refinance Agency (MUDRA Bank) in FY2016.

	India	Pakistan	Bangladesh	China
Automated Teller Machines (ATMs) per 100,000 adults	20	9	7	76
Branches of commercial banks per 100,000 adults	14	10	8	8
Deposit accounts with commercial banks per 1,000 adults	1542	367	681	31
Outstanding deposits (in percent of GDP)	66	30	53	157
Loan accounts with commercial banks per 1,000 adults	154	26	89	-
Mobile money transactions: number per 1,000 adults	193	3050	10182	-
Mobile money transactions: value, in percent of GDP	1.0	6.8	10.3	-

Source: PHD Research Bureau, data compiled from IMF

Economic and Financial Stability Impact

Empirical analysis suggests that better access to affordable formal finance is associated with higher output and improved gender equality. Estimation of a two-sector general equilibrium model for India, incorporating formal and informal sources of finance, has showed that policies that enhance women's access to formal finance also improve gender equality in entrepreneurship. The overall increase in entrepreneurship in turn increases investment, labor force participation and employment, and thus strengthens GDP growth.

The considerable positive effect on output is found to be mostly linked to the relaxation of collateral constraints, while the reduction in income inequality is primarily related to the associated decline in funding costs. However, there are certain trade-offs between financial inclusion and financial stability that necessitate careful monitoring. However, the expansion in entrepreneurs' access to credit has had side effects, notably in terms of rising NPLs, which warrants close monitoring of borrowers' credit quality and the need for careful balancing of financial inclusion prerogatives and macro prudential measures.

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