NEW CSR MANDATE BOOSTS MULTI-SECTORAL APPROACH

Financial Inclusion-Key to Economic & Social Development

“We recognise that financial inclusion is a key driver for economic development at national level and economic empowerment at an individual level. It’s a human right of the modern age.”

- David Lewis, Former Lord Mayor of the City of London, at a seminar in Mumbai in 2007

India boasts of a comprehensive and robust financial system that has supported the economic progress the country has seen in the last two decades. But despite this growth, vast swathes of population still languish without access to formal financial services – a report by BCG in 2007 suggested that with barely 34 percent of its population engaged in formal banking, India had the second highest number of financially excluded households in the world at about 135 million.

The extent of financial exclusion casts serious aspersions on the inclusiveness of India’s growth and impedes future progress. Having access to mainstream financial systems empowers people to succeed, driving the economy forward and ensuring financial sustainability into the future. The lack of such facilities disenfranchises poor people, trapping them in indebtedness and perpetuating a cycle of poverty and stagnation.

Financial inclusion has been a high-priority policy imperative for India and while considerable progress has been made over the years, India remains a long way from universal financial inclusion. This article attempts to map out the scope and roles of government, private and social sector have played in promoting financial inclusion and highlights the impetus received under the new CSR mandate for the same.

What is Financial Inclusion?

A universally accepted definition of financial inclusion is next to impossible. In India RBI describes financial inclusion as the process of ensuring access to appropriate financial products and services needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost in a fair and transparent manner by mainstream institutional players.

The financial inclusion ecosystems typically consist of many players–government, banks, micro finance institutions, non-banking financial institutions, NGOs, technology vendors etc. A holistic view of financial inclusion goes beyond mere supply side barriers and attempts to understand and reduce barriers on the demand side as well.

On the supply side, barriers to financial inclusion mainly
include inappropriate products and processes – such as complicated paperwork and identification documents, preference for banking with individuals over groups, requirement for collateral, stable and regular income, restricted access and reach.

On the demand side, factors like financial illiteracy, seasonal cash flows, cultural preference for non-formal mechanisms, a sense of unfriendliness and unwelcome in the formal financial sector, apprehension of bureaucracy etc. dampen the appetite for formal financial institutions.

Who are the Financially Excluded?

According to World Bank’s Global Financial Inclusion (Findex) data for 2011, only 35 percent of adults in the country have an account at a formal financial institution. While India performs slightly better than the other five South Asian countries covered by the Global Findex—Afghanistan, Bangladesh, Nepal, Pakistan, and Sri Lanka (Figure 1), it is significantly lagging behind than the other BRICS economies—Brazil, the Russian Federation, China, and South Africa.

Figure 1 – Proportion of with an account at a formal institution

The Findex data suggests that there is a large gender gap in the ownership of formal accounts in India. Women are less likely than men to have a formal account: while 44 percent of men report having an account, only 26 percent of women do so. Account penetration also varies enormously by age, income level, and education. Young adults in the age group of 15-25 are least likely to have an account (27 percent), followed by those over the age of 65 (34 percent). While 21 percent of adults in the poorest fifth of the income distribution have a formal account, 56 percent of those in the richest fifth do. And while 31 percent of adults with a primary education or less have a formal account, the share is 76 percent among those with a tertiary education.

Data from 59th Round of National Sample Survey (2003-04) suggests that financial exclusion is most acute in Central, Eastern and North-Eastern regions. In terms of social and occupational groups, landless labourers, marginal farmers, unorganised sector work-force, urban slum residents and people from scheduled castes and tribes are more likely to be financially excluded.

In addition to describing the profile of financially excluded groups in India, these numbers also help to understand some of the underlying causes that are peculiar to the India situations – systemic discrimination on the basis of gender, caste etc, geographical remoteness, lack of infrastructure etc.

Role of Government

Financial inclusion has been high on government’s agenda for a long time, and it has mainly performed regulatory and prescriptive role. The last decade saw a renewed thrust on financial inclusion in India. Initiatives like the SHG-Bank linkage program and the upsurge in the micro finance movement resulted in millions of Indians participating in the formal financial ecosystem.

The table below summarizes the key financial inclusion milestones initiated by the government since 1960s.

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<th>Period</th>
<th>Milestones</th>
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<td>1960s-70s</td>
<td>Nationalization of Banks. Establishment of National Bank for Agriculture and Rural Development (NABARD) to provide refinance to banks providing credit to agriculture. Lead bank scheme launched for rural lending.</td>
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<td>2000s</td>
<td>Focus on increasing credit to the neglected economy sectors and weaker sections of society. Development of the rural banking ecosystem including Regional Rural Banks. 100 percent financial inclusion drive launched. Electronic Bank Transfer Scheme introduced to transfer social benefits electronically to bank account of beneficiary.</td>
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Given the sheer size, incidence and complexity, it is clear that government action is necessary but not a sufficient condition to address and tackle financial exclusion and that the private sector (both financial and non financial) and the social sector have an important contribution to make to the field of financial inclusion.

Role of Banks and Private Financial Sectors

Typically, financial inclusion agenda among banks and private sector has been driven more by sticks (regulatory pressure) than carrots (profitable business models). Mainstream financial institutions still perceive...
financial inclusion as an imposition and not as a viable business opportunity.

Banks and financial companies can contribute towards ameliorating mainly supply side constraints by investing in product and process development. The commercial business models operated by banks mostly lack the requisite levels of flexibility, convenience and scalability to be practical in remote or rural areas. The high transaction costs associated with small loans and cumbersome distribution channels are too high for the models to generate revenues. The products themselves are very limited (mostly no frill accounts) and do not take cognizance of the very distinct and specific needs of the financially excluded. Products and services that are relevant for the unbanked populations include insurance in order to absorb economic shocks like adverse weather conditions or health emergencies, affordable credit taking into account seasonal inflow of income and remittance services.

Banks need to look at low-cost innovative products and processes to turn this into the next big business opportunity. Collaborating with industry partners for delivering such solutions can earn great outcomes. A well known example is FINO, a technology backbone company for grassroots financial entities serving people with no banking facilities. A tie-up between ICICI Bank/LIC/IFC/Union Bank, it allows subscribers to use the sophisticated back-end computing that top banks use at a fraction of the cost — and this allows it to offer its customers several different types of products, and so increases its customer penetration.

Similarly, banks and other financial institutions can also achieve low cost solutions through reconfiguring their operations to partner with non industry organizations like NGOs and community organizations to perform certain functions.

Role of Social Sector

The social sector can plug the holes in the mainstream financial framework by reducing both supply and demand side barriers. On the supply-side, there are some path breaking examples of innovation and out-of-the-box thinking from the social model that have had phenomenal success. One such model is the Kshetriya Grameen Financial Services (KGFS), the brain child of ex-ICICI banker Nachiket Mor and his team at the IFMR Trust -- a private trust, set up with a long-term loan from ICICI Bank, that supports research in financial inclusion. KGFS works on a low-cost model offering a bouquet of financial services – loans, saving, insurance and remittances. It was rolled out in Thanjavur in Tamil Nadu in 2008 and since then, Ganjam in Orissa and Tehri in Uttarakhand have been added.

NGOs and community organizations can be effective and efficient outreach partners. Banks can tap into their existing networks in far flung places for acquiring new customers and for establishing distribution channels. NGOs are instrumental in providing last-mile connectivity. Given their deeper understanding of local communities, NGOs can also become knowledge partners who can help banks and companies design appropriate products and reduce the associated risks. On the demand side, NGOs can act as intermediaries and bridge the gap between formal and informal systems, as has been very successfully demonstrated by the micro finance movement and NABARD's self help group-bank linkage policy.

NGOs role in imparting financial literacy to their beneficiaries cannot be overstated. With their ability to develop a connect with local communities, they are ideally placed to undertake these activities. They can help create a sense of confidence among those excluded and build the goodwill and trust that big companies often find difficult to achieve. At the same time, NGOs can also work to mitigate the underlying causes of financial exclusion such as marginalization of women.

The Companies Bill 2012 and the Mandatory 2.0 percent Corporate Social Responsibility Spending

Clause 135 of the Bill prescribes that every company with a net worth of Rs 500 crore or more, or turnover of Rs 1,000 crore or more, or net profit of Rs 5 crore and above in a fiscal year will have to spend 2.0 percent of three years’ average net profit towards CSR activities. FICCI estimates that 2,500 companies fall into the mandatory CSR-reporting category. CSR activities in the first year would be between INR 9,000
crore and INR 10,000 crore spent on social welfare.

Though enough details and clarifications are not available at this stage to make any confident claims or draw conclusions, one can conjecture that implications of the Bill for promoting financial inclusion are significant and positive.

The Bill facilitates innovation, product creation and marketing for BoP markets. It states that companies may achieve CSR objectives by integrating their business processes with social processes and developing innovative business models which create shared value, provide companies can clearly quantify social benefits flowing to beneficiaries in monetary terms.

For financial companies and banks that qualify under this mandate, espousing financial literacy as a cause makes strategic sense. It is perfectly aligned to their existing expertise and competencies in the field of finance, which can be easily and purposefully leveraged to benefit the unreached and unbanked population. For example, Total System Services, largest processor of merchant acquirers and bank credit card issuers in world, is drawing its CSR force from innovative technology by indexing biometric data from every Indian citizen. It would enable Indian consumers, belonging to any strata, to have easy access to financial services. TSYS is introducing electronic payment system whereby a consumer would be issued 12-digit ID number linked to the Indian Unique Identification Accounts, which would make banking services more easily accessible.

Another successful example includes MasterCard whose CSR initiatives are focused on furthering financial inclusion through entrepreneurship support. MasterCard has extended their financial support to SEWA (cooperative bank run by women in Gujarat) to set up the Rural Urban Development Initiative Processing Centre which couples financial literacy with entrepreneurial skills so that more people, especially a group that is traditionally under-served, like women, can join the financial mainstream.

The Bill also creates a unique opportunity for non-financial companies to contribute to financial inclusion. Heavy mining and extractive industries, often operating in remote and rural areas, can partner with NGOs to reach out to an otherwise inaccessible and isolated population in their local communities to connect them to mainstream financial systems. Technological companies can also play an important role in furthering financial inclusion, for example FINO is already playing an important role in implementing the CSR strategies of its various clients.

In recommending that companies partner with NGOs and social enterprises to undertake CSR programs, the Bill helps to link resource deficient NGOs to resource rich companies. This can help existing NGOs working for inclusion to scale up and expand their programs or can consider undertaking it as a new area of interest. It also encourages partnership models between corporate and social sectors, harvesting all the above mentioned benefits of such engagements.

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Conclusion
Financial inclusion is a fundamental cornerstone of economic and social development. Given the size of the challenge and the diverse nature of the financially excluded segment in India, the onus of promoting financial inclusion lies equally on each stakeholder of the financial inclusion ecosystem – government, banks, private and social sector. Government needs to create an enabling atmosphere for banks and financial institution to work effectively in such markets. Banks and private companies in turn need to move beyond treating this as an obligation and recognize and appreciate the business potential of tapping into these underserved markets and design appropriate and innovative products and models. The potential of social sector to reduce barriers on supply and demand side should not be underestimated; the sector should be nurtured and supported with resources and expertise to tackle financial exclusion. The mandatory CSR spending, as stipulated by the Companies Bill 2012, can help foster partnerships and help achieve a joint approach to promoting financial inclusion in a way that is mutually beneficial to all stakeholders. In order to realize the goal of universal financial inclusion, each stakeholder has to play its part and more importantly, collaborate with each other to harness the benefits and synergies of shared efforts.

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