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A case study of financial inclusion through social financing institutions

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Abstract
Financial inclusion is widely recognised as one of most engines of inclusive growth of any country. Financial inclusion is the access to financial services, at affordable costs, to sections of disadvantaged and low income segments of society to facilitate investment and economic growth in the country. According to the Global Financial Development Report, 2014, about 50 percent of adults have one or more bank accounts, and a nearly equal share are unbanked in globally. In India nearly half of the poor are financially excluded from the country's main stream of banking sector. New forms of financial intermediaries have emerged since the 1990s to provide social and community finance to socially vulnerable groups and support social organizations. These financial institutions are popularly known as social financing institutions. They may be in different forms and structures and spread largely in Europe, UK, India and the United States and also expanding worldwide.

The objective of the paper is to understand how financial inclusion through social financing institutions can be a viable option for inclusive growth in India. The present study is based on secondary data with case study method. Data have been collected from the Annual Report of the various social financing institutions published in their website. Compound growth rate, percentage change, various ratios have been used for the analysis.

Keywords: Financial inclusion, inclusive growth, social financing institutions

Introduction
Financial Inclusion is considered to be the core objective of many developing nations since from last decade as many research findings correlate the direct link between the financial exclusion and the poverty prevailing in developing nations. Financial inclusion broadly refers to the degree of access of households and firms, especially poorer households and small and medium-sized enterprises (SMEs), to financial services. But in India, lot of households, especially in rural areas, are financially excluded from the country's main stream of banking sector. According to the Global Financial Development Report, 2014, about 50 percent of adults have one or more bank accounts, and a nearly equal share are unbanked in globally. In India nearly half of the poor are financially excluded from the country's main stream of banking sector. According to the Global Findex database for 2014, which is based on survey interviews, the worldwide average for this measure is 62%, Asia's statistics show there is nearly 55% of the world's unbanked adults, mainly in India and the People's Republic of China. World Bank Index Survey (2012) states that only 35% of Indian adults had access to a formal bank account and 8% borrowed from a formal financial institution in last 12 months. However, Survey on India's Citizen Environment & Consumer Economy' (ICE 360° survey), conducted in 2016 after demonetization, shows that the JDY scheme has been a runaway success in getting people to open bank accounts. It shows that 99% of households in both rural and urban India have at least one member with a bank account. In India, the basic concept of financial inclusion is having a savings or current account with any bank. But In reality, it includes credit, and risk management product to people with a range of needs especially poor people and most disadvantages group (ASLI and Leora, 2013). A segment of high and upper middle income population and a significantly large section of the population, particularly those living on low incomes, cannot access mainstream financial products such as bank accounts, credit, remittances and payment services, financial advisory services, insurance facilities, etc. This is because of many obstacles, such as High transaction costs, higher risks, higher rates of illiteracy, lack of awareness, low income, social exclusion etc.,

make it difficult for rural households and entrepreneurs to access financial services. Normally the weaker sections of the society are completely ignored by the formal financial institutions in the race of making chunks of profits or the complexities involved in providing finance to the weaker section. But inclusive growth can not possible with poverty in rural areas. Inclusive growth refers to both the pace and distribution of economic growth. In order for growth to be sustainable and effective in reducing poverty, it needs to be inclusive (Berg and Ostry, 2011; and Kraay, 2004) [1]. According to Dr. Chakrabarty, Deputy Governor, Reserve Bank of India, 'Economic growth in India has not been inclusive; unemployment and poverty remain high and a vast majority of the population remains excluded from health and education facilities.' Therefore, a new form of financial institutions have been emerged to provide financial services with affordable cost to the poor and disadvantages households, firms, social enterprises to reduce poverty and for economic developed. According to Kamath R. (2007), the social financing institutions will be considered the substitute of the formal sectors banking system in rural areas of any economy.

Objectives of the study
1. To understand the concept of financial inclusion and inclusive growth
2. To study present scenario of financial inclusion and inclusive growth in India.
3. To identify the main obstacles of financial inclusion and inclusive growth.
4. To understand the role of social financing institutions on financial inclusion regarding inclusive growth.

Review of Literature
In India, Financial Inclusion first introduced in 2005, when it was introduced from a pilot project in UT of Pondicherry, by Dr. K. C. Chakraborthy, the chairman of Indian Bank.

RBI defines Financial Inclusion as 'a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular, at an affordable cost in a fair and transparent manner by regulated mainstream institutional players'.

GOI (2008) 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'.

According to the Planning Commission (2009), financial inclusion refers to 'universal access to a wide range of financial services at a reasonable cost. These include not only banking products but also other financial services such as insurance and equity products'.

According to Chakraborty (2011), 'financial inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of society including 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 World Bank defined financial inclusion as 'the proportion of individuals and firms that use financial services', while the Asian Development Bank stated it is 'ready access for households and firms to reasonably priced financial services'.

Therefore, we can say that financial inclusion is the access of financial products and services with affordable cost in a fair and transparent manner by individual households, firms or institutions in all sections and areas in the society of a country.

As per Census 2001, only 30% people of the rural area and 50% people in urban area and only 36% of total population in India have the baking facility. As per Census 2011, only 54% people of the rural area and 67.8% people in urban area and only 58.7% of total population in India have the baking facility. World Bank Index Survey (2012) states that only 35% of Indian adults had access to a formal bank account and 8% borrowed from a formal financial institution in last 12 months. According to the Global Financial Development Report 2014, nearly half of the poor are financially excluded from the country's main stream of banking sector in India. According to Credit Rating Information Services of India Limited (CRISIL), at the end of fiscal 2012, the all-India CRISIL score stood at 42.8 on a scale of 100 (40.1 in 2011, 37.6 in 2010 and 35.4 in 2009). However, Survey on India's Citizen Environment & Consumer Economy' (ICE 360° survey), conducted in 2016 after demonetization, shows that the JDY scheme has been a runaway success in getting people to open bank accounts. It shows that 99% of households in both rural and urban India have at least one member with a bank account.

Table 1: Financial Inclusion Plan – A Progress Report

Particulars	End-March 2010	End-March 2015	End-March 2016
1	2	3	4
Banking Outlets in Villages – Branches	33,378	49,571	51,830
Banking Outlets in Villages – Branchless Mode	34,316	504,142	534,477
Banking Outlets in Villages –Total	67,694	553,713	586,307
Urban Locations covered through BCs	447	96,847	102,552
BSBDA-Through branches (No. in million)	60	210	238
BSBDA-Through branches (₹ billion)	44	365	474
BSBDA-Through BCs (No. in million)	13	188	231
BSBDA-Through BCs (₹ billion)	11	75	164
BSBDA-Total (No. in million)	73	398	469
BSBDA Total (₹ billion)	55	440	638
OD facility availed in BSBDAs (No. in million)	0.2	8	9
OD facility availed in BSBDAs (₹ billion)	0.1	20	29
KCCs -Total (No. in million)	24	43	47
KCCs -Total (₹ billion)	1,240	4,382	5,131
GCC-Total (No. in million)	1	9	11
GCC-Total (₹ billion)	35	1,302	1,493
ICT-A/Cs-BC-Total Transactions (No. in million)	26.5	477.0	826.8
ICT-A/Cs-BC-Total Transactions (₹ billion)	6.9	859.8	1,686.9

Source: RBI Annual Report 2016.

So a large portion of the total Indian population is excluded from financial inclusion through main stream of banking facility. The main driver of financial exclusion are High transaction costs, higher risks, higher rates of illiteracy, lack of awareness, low income, social exclusion etc But financial exclusion is proving to be one of the major causes in the path of Indian economic growth. There is a positive correlation between financial inclusion and inclusive growth. Inclusive growth means economic growth that creates employment opportunities and helps in reducing poverty. According to OECD, Inclusive growth reduces the gap between the rich and the poor by increasing the standard of living in fairer way. Inclusive growth refers to both the pace and distribution of economic growth. The World Bank: defines inclusive growth by its pace and pattern – growth that is sufficient to lift large numbers out of poverty and growth that includes the largest part of the country's labour force in the economy.

India has entered the Twelfth Plan period with an impressive record of economic average growth at around 8% which is similar to the Eleventh Plan period. Whereas it was just 5.5% in Ninth Plan period, 7.7% in the Tenth Plan period. Though India is considered the world’s fast moving economic growth, it does not reflect the inclusive growth. Because According to Credit Suisse, the top 1% of the population own 15.9% of India’s wealth, the top 5% own 38.3% and the top 10% have 52.9% of Indian’s wealth. Inclusive growth depends on two factors: (i) income growth; and (ii) income distribution. In a report on inclusive growth, the Organisation for Economic Cooperation and Development (OECD) (2012) identifies three major problems for which inclusive growth cannot be tackled: poverty, unemployment and inequality.

Therefore main obstacles of both for financial inclusion and inclusive growth are poverty, unemployment and illiteracy. For a developing country like India, the need of inclusive growth is vital to achieve the overall progress of the country. Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. Rapid and sustained poverty reduction requires inclusive growth that allows people to contribute to and benefit from economic growth. The social enterprises are plying a vital role for economic development by reducing the above said major problems. Social enterprises in India have access to finance from 3 main sources: Banks, Venture Capital Funds and Non-Banking Financial Companies (NBFC). As there is no official Social Enterprise Category, there is no formal database or census that tracks social enterprises. As per the estimates across various stages there are approximately 7500 social enterprises in India. According to British Council report, Indian social enterprises have huge potential. Majority (53%) of social enterprises in India are focused on skill development, followed by 30% on education, 28% on agriculture-related activities, 26% on financial services, 26% on clean energy, and 22% on health care technology.

The social financing institutions provide low cost funds to the socially excluded households, the social enterprises to run their operation smoothly. Social finance institutions may be those non-profit institutions which collect low cost funds from members, government, individuals, groups, institutions and provide it as loans, investments, grants, donations and/or technical assistance to the social entrepreneurs, social enterprises and/or the members for social development in the area where they exist. The social financing institutions may include social bank, Ethical Bank, co-operative banks, credit unions, community development bank, micro-finance institutions etc. The main difference between traditional financial institutions and social financing institutions is that, the traditional financial Institutions are more concern about the development of their shareholders or owners interest rather than stakeholders interest i.e. profit oriented but social financing Institutions are more concerned about the development of their stakeholder interest rather than shareholders or owner interest.

Research Methodology

The present study has been conducted to understand the role of social financing institutions on financial inclusion regarding inclusive growth. The present study was conducted on case study method because there is no formal database or census that tracks social financing institutions in India. The secondary data have been collected from the Annual Report and the website of the selected case. Compound growth rate, percentage change, various ratios have been used for the analysis.

Analysis with Case Study

Grameen Koota was introduced by Mrs Vinatha M. Reddy in 1996 as a NGO with seed capital funding from Grameen Trust, Bangladesh. It was later re-named Grameen Koota Financial Services Pvt. Ltd. It always focuses on households engaged in economic activity with limited access to formal financial services. It strives for the social and financial upliftment of the rural poor and low-income households, particularly women, by providing them financial and non-financial services.

Vision: To enable economic and social change in poor and low income households through financial products and development services in all the geographical areas of its operation.

Mission

- To transform and uplift the lives of poor and low-income families with microfinance and other development services.
- To be a sustainable, friendly and trusted provider of affordable and need-based services.

Business model: Grameen Kota is a Non-profit Micro Finance Institutions regulated by Non-Banking Financial Company - Micro Finance Institutions (NBFC-MFI) entity by the Reserve Bank of India (RBI) in 2013.

Products /Services: Financial products are broadly classified into Credit, Insurance and Pension products

- **Credit**
- **Income Generation Loans -** purchasing fixed assets to install additional machinery
- **Home Improvement Loans -** for improvement and extension of existing house, including repairing or replacing of a roof, wall, floor or door, for monsoon proofing, adding a room or kitchen, etc.
- **Emergency Loans -** to help the coustomers address emergencies and short-term cash flow constraints.

- **Family Welfare Loans -** in improving the quality of life such as purchasing cook stoves, LPG connections, bicycles, water purifiers and solar lights, meet education requirements of their children, cover medical expenses and to cater specific needs that arise during festivals.
- **Home Construction Loan-** for home construction and house extension.

➢ **Insurance**

Grameen Koota has tied up with three insurance service providers, i.e., Shriram Life Insurance Company Limited, Bajaj Allianz Life Insurance Company Limited and Kotak Life Insurance Company Limited to cover its members and their spouses under group term life Insurance.

➢ **Pension**

Grameen Koota is an aggregator of the National Pension Scheme (NPS) of the Government of India to provide pension to its clients and collect contribution from their doorsteps. The client has to contribute a minimum of Rs.1, 000 and a maximum of Rs.12, 000 in a year to avail the Swavalamban benefit of Rs.1, 000 from the Government of India.

Customer segments:

It focuses on mainly rural areas to reach poor and low income households for financial inclusion. Up to March, 2016 its total customers was 1,386,588 out of which 73% from rural and rest 27% from urban areas. Around 63% of urban customers and 71% of rural customers are fall under below poverty line.

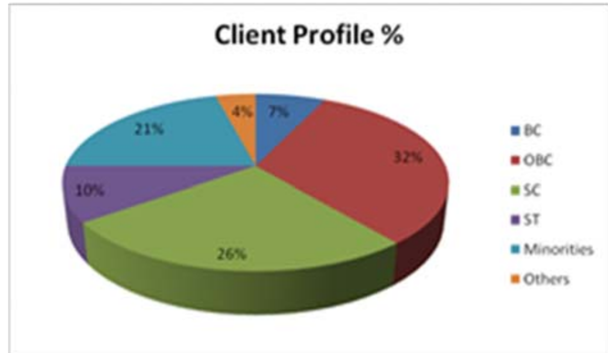

Fig 1: Client Profile %

Financial Inclusion and Social Impact: It currently serves over 1.3 million women customers with more than 4000 staff. It sanctioned around 8.5 million loans to its customers during last three years. Around 2.42 million people got benefited from its services since 2010. Approximately 1.28 million non-customers got benefited from various types of skill development training, workshops regarding financial literacy provided by Grameen Kota during last five years.

Table 2: Compound Annual Growth Rate of the Firm.

Particulars	4 Year CAGR (%)
Branches	15.40%
Active Borrowers	40.00%
Loans disbursed	54.00%
Total Staff	31.90%

Table 3: Number of various type of loan disbursed during last three years.

Number of Loans	Mar'14	Mar'15	Mar'16
Income Generation Loans	5,19,308	9,60,233	14,99,679
Water, Sanitation & Home Improvement	85,978	1,67,045	1,54,095
Education, Festival & Emergencies	10,64,677	16,83,023	24,10,774
Total	16,69,963	28,10,301	40,64,548

Table 4: Number of beneficiaries through different types of serves.

Type of services	No. of Beneficiaries
Medical Insurance Beneficiaries	2,25,683
Customer awareness through Jagruti	12,54,391
Number of children supported with education loans	5,66,337
Customers supported to build toilets with sanitation loans	2,80,406
Affordable health care facility by health cards	1,63,122
Subscribers who availed health consultation services	81,263
Customers enrolled for National Pension Scheme	51,940
Customers supported to renovate homes with home improvement loans	16,539
Total	24,13,998

Major achievements

During FY 2015-16, Grameen Koota received institutional rating of mfR1 from CRISIL, social rating of Σα from M-CRIL, COCA-1 Rating from SMERA Ratings, S.T.A.R. MFI recognition from MIX, renewed smart campaign Client Protection Certification, besides receiving the prestigious Microfinance Organization of the Year 2015 Award (under Large MFI Category) at the 7th edition of the Microfinance India Awards.

Conclusion

The inclusive growth of an economy mostly depends on the financial inclusion. The major obstacles of the financial inclusion and inclusive growth of an economy are poverty, unemployment and illiteracy. In India a large portion of total population mainly in rural and poor people are excluded from the formal financial system. New emerging non-banking financial institutions popularly name as social financing institutions have come forward to tackle the poverty, unemployment and illiteracy. The study showed that they not only provide affordable credit to its customers but also provide different types of skill development training and workshop for financial literacy to develop economic and social condition. They support people, mainly undeveloped and financially excluded from main stream of banking sector, to be self employed so that they can reduce their poverty. So they play a vital role to reduce poverty, unemployment and illiteracy. Therefore it can be conclude that social financing institutions may be a viable option for financial inclusion and inclusive growth in India. But it may not be the substitute of formal banking system.

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