DIMENSIONS OF SOCIAL BANKING AND FINANCIAL INCLUSION PROGRAMS IN INDIA: LESSONS FROM DESJARDINS

Amit Ranjan, Ph.D., Canadian Studies, School of International Studies, Jawaharlal Nehru University, and Senior Banker in the domain of Rural and Development Financing, New Delhi.

Benoit Tremblay, Professor, Department of Management, École des Hautes Études Commerciales, and Director, Desjardins Centre for Studies in Management of Financial Services Cooperatives, Montréal.

INTRODUCTION

Social banking and financial inclusion present a significant challenge and a unique opportunity to build a broad based and stable financial system, subservient and contributing to growth and overall economic prosperity of the low income people. The banking business globally has been designed to serve businesses and individuals with capabilities to act in a market economy without much attention to the poor who cannot pay high costs for accessing financial services. This situation is often forces them to rely on informal sources for their funding needs at exorbitant rates and has severely curtailed the opportunities available to them to use the financial system to improve the quality of their lives. Social banking has emerged as the system where banking business is oriented towards developing technology leveraged models that bring down the costs of providing services and make banking affordable to the masses. By extending the reach and penetration of banks, social banking tries to make banking services available to the marginalized segments of society (Chakrabarty, 2012).

Financial Inclusion Programme is not only expansion of banking and financial activities to the unbanked and excluded population but it also envisions bringing multi-faceted developments to the marginalized section of society who are yet to become the partners in equilibrium of our advanced and developed societies. Three quarters of the world's more than one billion extremely poor people live in rural areas of developing countries. Poor people in rural areas tend to have lower levels of health and education; they are more likely to have limited access to basic services such as water and sanitation; and paradoxically, despite depending on agriculture as their main source of livelihood, they also suffer the most from hunger and food insecurity (Harza, 2009).

The absence of banking and credit facilities is seen as a major reason behind the mass poverty. It has been experienced that a family's overall standards of living improve drastically when they are given access to affordable credit facilities. "About 2.5 billion people across the globe do not have access to basic banking services. The unbanked population, which lives primarily in developing countries, comprises nearly half of the world's working-age population. Their exclusion from the formal financial system restricts their participation in the global economy and severely curtails the opportunities available to them to pull themselves out of poverty" (Chakrabarty, 2012).

FINANCIAL INCLUSION PROGRAMME IN INDIA

India is principally a rural economy as about 70% of its population lives in villages. Inaccessibility of credit and banking services to the weaker sections, particularly in rural areas and the agriculture primary sector, can be termed as a major reason behind the mass-poverty in India. The rural credit system assumes a high importance because most Indian rural families have inadequate savings to finance farming and other economic activities. Thus availability of timely credit at affordable rates of interest is a pre-requisite for improving rural livelihood and accelerating rural development (Sing, 2009).

The traditional avenues of rural financing consist of traditional moneylenders, big landlords, big farmers, traders, etc. The relationship brought about by such credit transaction is exploitative in nature and is marked by high interest rates, usurious practices, lifelong and inter-generational indebtedness, etc. Financing in rural sectors is mainly done through informal credit sources (Chakraborty, 2009). To fight this exploitation, modern institutional credit was introduced. A large number of agencies, including cooperatives, regional rural banks,

commercial banks, non-banking financial institutions, self-help groups together represent the institutional rural credit system in India. These networks, apart from working as financial intermediaries, also play a key developmental role in the rural economy.

As per the estimates of the National Sample Survey, over 50% of cultivator households, mostly marginal farmers, have virtually no access to credit (Committee of Financial Inclusion 2008). Access of financial services through the formal financial network remains difficult for the poor. "Thin penetration of banking and financial institutions in the rural areas," "cumbersome norms and procedures of financial institutions," "collateral-based financing," "systemic in-built bias against small borrowers by formal banking systems which feel burdened with small and frequent transactions," "high operating expenses," "ongoing opinion over the financial services to poor as a non-profitable highly risky venture," etc. are some of the principal reasons behind the hesitant approach of banks and financial institutions in extending their services to the masses on margin.

Early efforts to extend credit to weaker sections through institutional channels in India include the enactment of the Cooperative Societies Act, in 1904, and the nationalization of 14 commercial banks in 1969. With the aim to further intensify the efforts of providing institutional financial services in rural areas, the Regional Rural Banks (RRBs) were exclusively mooted. The National Bank for Agriculture and Rural Development (NABARD) was set up by the government as an apex and regulatory body in the field of rural financing. NABARD launched the SHG-Bank Linkage Programme in 1992, today the largest microfinance programme in the world. The concept of priority sector lending became mandatory where banks have to extend 40% of total advances to priority sectors and 18% to agriculture. The Eleventh Five-Year-Plan (2007-12) of India envisioned inclusive growth as a key policy objective. It envisages restructuring the policies in order to make the growth faster, broad-based and inclusive. The policies aim at increasing the income and employment opportunities and the financing of programmes capable of making the growth more inclusive, such as the development of agriculture and small scale industries.

PROBLEMS IN FINANCIAL INCLUSION

- With remarkable increase in the rural credit from institutional agencies, the recent years have also witnessed the unprecedented high rate of default cases. The growing cases of defaults have been putting an adverse impact over the financial health and sustainability of the lending institutions.
- The vision of financial inclusion incorporates financial assistance for capacity building and economic emancipation of the target groups. But it is experienced that the endeavor of financial inclusion has mostly remained confined to financial assistance and the large number of default cases in priority sector lending shows our midway diversion from the goal of capacity building of masses and it thus requires to re-approach the entire issue for the envisaged result of sustainable financial empowerment of the masses especially of women and other vulnerable groups.
- The existence of multiple agencies retailing credit in a common area of operation and dispersing credit in an uncoordinated manner resulted in multiple financing, over-financing, under-financing, financial indiscipline and diversion of scarce resources to unproductive purposes (Babu et Subash 2009).
- Absence or delay in adopting latest technology, in particular with cooperatives and RRBs, has been affecting cost and operational efficiency in extending affordable banking services to the masses.
- Efficiency and performances of small size exclusive institutions like RRBs and Cooperatives are marred by local conditions and policies. There is a strong requirement to restructure these institutions in a centralized body with uniform policy guiding to fulfill the requirements of the masses.

FUTURE CHALLENGES

- With rising rural income and agricultural exports, the next few years would witness a substantial increase in the demand for rural credit. The growing importance of animal husbandry, fishery, forestry, giving preference for high value crops, may necessitate involvement of newer financial agencies or groups such as Self-Help Groups (SHGs), non-banking financial institutional companies (Babu et Subash 2009). There has been a substantial increase in agricultural credit in the last decade. But in order to meet our target of maintaining 9% annual growth in GDP, the agriculture sector has to register an annual growth of 4% on a permanent basis. For this, larger capital infusion is required. Achieving minimum growth is a pre-requisite for inclusive growth, reduction of poverty levels, development of the rural economy and the enhancement of farm incomes (Economic survey of India, 2012).
- Agencies involved in rural credit, especially Regional Rural Banks and Co-operatives, need to be revitalized by the infusion of fresh capital and latest technology, with emphasis on greater autonomy, accountability and self-sustainability.

- About 70% of the population and over 50% of the total workforce depends on agriculture for its livelihood but its contribution in GDP has been falling steeply. With declining per capita productivity, it is a huge task for the development agencies to ensure our goal of inclusive development by rendering the agricultural activities profitable.

LESSONS FROM DESJARDINS GROUP

Canada is the country with the highest rate of per capita cooperative presence, particularly in Quebec. The main reason for such a strong cooperative environment in Canada lies behind the pious efforts of Alphonse Desjardins as the pioneer of the cooperative movement in North America. At the turn of the 20th century economic and social life in Quebec was characterized by exploitative and usurious lending practices due to the absence of a formal financial infrastructure. This led to pitiful living conditions for common French Canadians; life-long indebtedness caused them to lose their farms and means of livelihood, and the lack of capital prevented them from adopting the latest technologies in agricultural activities, which resulted in poor agricultural productivity, their principal source of livelihood. All this resulted in a high rate of migration of poor Francophones to the United States, leading to the dilution of their culture, religion and language. The current economic and social conditions of rural India cannot directly be matched with the conditions of Quebec during the early 20th century but some of the similarities and solutions adopted can be inspiring.

Alphonse Desjardins erected a cooperative institution, "the Caisse," as a solution to the different problems of poor Francophones. He first focused on the mission to inculcate the habit of saving and exercising a prudent life-style among the poor Francophones. These local and small savings became the seed capital of the Caisses which was further utilized for lending to individual members for productive purposes and for financing the local and community development activities through investment in local schools, hospitals and municipal bodies. Gradually, the Caisses became the centre of financial training for the cultural, economic and social emancipation of French Canada. It also became the medium to promote democracy and youth by designing special "Caisses scolaires" catering to the needs of children. The Desjardins group also worked to reduce alcoholism and gambling among Francophones. Desjardins' Caisses were the principal source of short term agricultural financing for the provincial government of Quebec during the first half of the 20th century. The Desjardins Group was also the selected honored partner of the provincial government of Quebec during the second half of the 20th century when Quebec embarked on the vision of industrialization and modernization. Being the pioneer and leader in online banking services in Quebec at the beginning of the sixties, Desjardins has always been on the forefront to adopt the latest technology as a tool to enhance the cost and service efficiency, all targeted to provide better and more affordable services to its members (Poulin, Goulet & Rivard 2000).

Starting as cooperative unit based on the small savings of the population, the Desjardins group is today the largest financial group in Quebec, the top cooperative financial group in Canada and the 6th largest in the world, with 5.6 million members and clients, 46,000 employees serving 400,000 businesses in Canada, and $190.1 billion in total assets as of December 31th, 2011. The same year, the highly regarded magazine *Corporate Knights* announced that it has ranked the Desjardins Group first on its list of the Best 50 Corporate Citizens in Canada. Desjardins is also active in 25 developing and emerging countries through *Développement international Desjardins* (DID).

CONCLUSION

The Rangarajan Committee of Financial Inclusion has defined 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." As an example, India is the largest producer of bananas in the world and it holds 23% of the market share of international banana production. Because of a lack of supporting infrastructures or resources, small farmers are unable to sell their product on the international market and India thus has almost zero shares in global banana exports. As a rapidly growing economy, India must tap into this unexplored potential to maintain the momentum of rapid growth. India needs to learn lessons from China who has proven, by harnessing the immense potential of the rural economy, that financing weaker and marginal sections is not charity work, but a significant source of future economic growth.

There has been appreciable progress in extending financial services to poor and weaker sections in India. But all the collective efforts get marred by various institutionalized problems. The specialized agencies, like RRBs and Cooperatives, working exclusively in the field of social banking and financial inclusion, have very poor financial health indicators. The sustainability and viability of these institutions have remained the cause of concern for the regulating bodies. Large number of defaults, high operational expenses, tardive technological upgrades, etc. can be cited as some of the problems being faced by these specialized bodies. The presence of multiple agencies working in the common field of operations has also been led to numerous cases of defaults because of

multi-financing and over-financing. Commercial banks, RRBs, Cooperatives, NBFCs, MFIs along with Foreign Banks complete the map of financial inclusion and social banking programmes in India and their participation in the agenda of financial inclusion has resulted in a increase of beneficiaries and a quantum of financing to weaker sections.

Understanding an institution like the Desjardins Group and the way it has managed to grow into the largest cooperative financial network of Canada, when founded on the small savings of people who were excluded from the formal financial network should inspire the agenda for policymakers in India. By concentrating first on the small savings of the poor, prudent lending policies with productive purposes and the training of borrowers toward financial emancipation, Desjardins has grown to the point that it has been able to adopt the latest technology to reduce the operational expenses to remain financially and technologically viable and, with adequate supervision, to expand its domain of operations in different fields of financial activities to allow its customers a single window access to all their financial services requirements. Desjardins has proved that, starting with people neglected by the normal financial infrastructure, a well-managed financial cooperative services network has the capacity to tap into and channel unexplored local capacities. The success of Desjardins can be an example to follow for Indian financial institutions dedicated to offering services under a social banking and financial inclusion agenda.

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LES ACTIVITÉS BANCAIRES SOCIALEMENT RESPONSABLES ET L'INCLUSION FINANCIÈRE EN INDE: LEÇONS DE L'EXPÉRIENCE DE DESJARDINS

Le comité d'inclusion financière de la Banque nationale pour l'agriculture et le développement (NABARD) a défini l'inclusion financière comme le: *procédé utilisé afin d'assurer l'accès aux services financiers ainsi qu'à des opportunités adéquates de crédit par les groupes vulnérables, par exemple les groupes plus faibles et les groupes plus pauvres, à un coût abordable.* Un système bancaire socialement responsable et l'inclusion financière sont devenus d'une grande importance afin d'amener les populations marginalisées à entrer dans la normalité.

Le système bancaire socialement responsable permet de diminuer les coûts des services, et donc de les rendre abordables et accessibles pour les plus vulnérables. 750 millions des gens les plus pauvres dans le monde vivent dans les zones rurales des pays en voie de développement. Ces gens ont un niveau d'éducation plus bas et sont moins en santé. De plus, ils ont un accès limité à des services de base tels que l'eau et les services sanitaires. Paradoxalement, bien qu'ils dépendent de l'agriculture pour survivre, ils souffrent de la faim et de l'insécurité alimentaire.

L'absence de services bancaires et de crédit accessible est considérée comme la raison première derrière cette pauvreté de masse. L'expérience démontre en effet que les conditions de vie d'une famille s'améliorent drastiquement lorsqu'elle accède à des services de crédit abordables.

Inclusion financière

Le financement traditionnel dans les zones rurales en Inde consiste en un système incluant des prêteurs, des propriétaires terriens, des fermiers bien nantis, des marchands, etc. Les fonds ainsi obtenus de sources non institutionnelles et informelles sont souvent une source d'exploitation et sont caractérisés par des taux d'intérêt élevés, des pratiques usuraires provoquant l'endettement prolongé et même intergénérationnel. Afin de contrer cette exploitation, un grand nombre d'agences, incluant des coopératives, des banques rurales régionales, des institutions financières autres que des banques, des groupes de soutien, interviennent dans le paysage bancaire rural et représentent les institutions modernes de crédit. Ces réseaux travaillent comme intermédiaires financiers en plus de jouer un rôle primordial dans l'économie rurale. Le 11e Plan de cinq ans envisageait la croissance économique inclusive comme un objectif primordial. Le plan envisage de

restructurer les politiques afin d'accélérer la croissance économique et d'assurer l'inclusion économique sur l'ensemble du territoire. Les politiques ont été mises en place afin d'accroître les opportunités d'emplois et les revenus et ont prévu l'accroissement du financement des programmes susceptibles de rendre la croissance plus inclusive.

Les défis du programme d'inclusion financière en Inde:

- L'augmentation remarquable du crédit dans les milieux ruraux grâce aux agences institutionnelles s'est aussi accompagnée d'un haut taux de défaut de paiements, ce qui a eu un impact négatif sur la santé financière et la persistance des institutions usurières.
- Les efforts autour de l'inclusion financière sont majoritairement restreints à l'assistance financière. Le nombre important de cas de défaut de paiements dans des secteurs prioritaires démontre que nous nous sommes écartés du but initial d'augmenter notre potentiel d'action et la responsabilisation financière des populations, spécialement des femmes et des autres groupes vulnérables.
- La présence de multiples agences offrant du crédit dans un même secteur d'opération et une dispersion du crédit d'une manière non coordonnée résultent dans certains cas en un surfinancement de certaines activités, ou en un sous-financement d'autres activités.
- L'absence de technologies de pointe ou le délai à les obtenir, en particulier dans les coopératives et les BRRs, affectent les coûts et l'efficacité des opérations dans l'extension de services financiers abordables.
- Avec l'augmentation du niveau de vie et des exportations agricoles, les prochaines années verront une augmentation de la demande pour du crédit rural.

Leçons du groupe Desjardins

Au tournant du 20e siècle, la vie sociale et économique du Québec était caractérisée par des pratiques usuraires, principalement dues à l'absence d'infrastructures financières institutionnelles accessibles aux moins nantis. Cet état des choses menait à des conditions de vie difficiles pour les canadiens-français qui se trouvaient ainsi surendettés et pouvaient donc perdre leur propriété agricole et donc leur gagne-pain. Les difficultés d'accès au crédit responsable limitaient aussi l'accès aux nouvelles technologies dans le secteur agricole résultant en une faible productivité du secteur. Cela résulta en un haut taux de migration des francophones les plus pauvres. Les conditions socio-économiques de l'Inde rurale actuelle ressemblent à certains égards à celles du Québec du 20e siècle.

En 1900, Alphonse Desjardins fonda la Caisse, une institution coopérative. Il se concentra d'abord sur la promotion des valeurs d'épargne et d'un mode de vie prudent parmi les francophones pauvres. Les maigres épargnes locales furent à la base du capital des Caisses et furent utilisées pour accorder du crédit aux membres individuels à des fins productives, mais aussi pour financer le développement local et celui des activités communautaires. Après des débuts très modestes, le groupe des caisses Desjardins est aujourd'hui le plus grand groupe financier au Québec, en plus d'être la plus grande coopérative financière au Canada. Elle est la sixième plus grande coopérative financière au monde, avec 190.1 milliards d'actifs et 5.6. Millions de membres-clients. Elle compte 46,000 employés, servant 400,000 entreprises au Canada.

En Inde, il y a un progrès appréciable pour faciliter l'accès des services financiers par les populations plus vulnérables, mais tous ces efforts collectifs ont été marqués par divers problèmes institutionnels. Les agences spécialisées comme les BRRs et les coopératives qui travaillent exclusivement à développer les activités bancaires socialement responsables et l'inclusion financière ont des indicateurs de santé financière qui inquiètent les agences de réglementation. Ces inquiétudes se basent particulièrement sur le nombre élevé de défauts de paiement, les dépenses opérationnelles élevées et le retard dans l'adoption des nouvelles technologies qui entravent leurs efforts de promotion de l'inclusion financière. Une institution comme Desjardins peut être une source d'inspiration pour les responsables des politiques de développement de l'inclusion financière en Inde. À travers la mobilisation de l'épargne des pauvres et des politiques prudentes de crédit à des fins productives, la formation et la supervision des emprunteurs, Desjardins a démontré que la tranche de la population négligée par les grandes institutions financières peut représenter un immense potentiel si nous arrivons à mobiliser et à organiser ses capacités inexplorées.