UNIT 6 TOP DOWN AND BOTTOM UP APPROACHES

STRUCTURE

6.1 Introduction

6.2 Objectives

6.3 Top down and bottom up approaches

6.4 Aspects of Financial Inclusion

6.5 Financial Inclusion approaches

6.6 Three Nationalizations

6.7 Changing Attitude- Era of deregulation

6.8 Reworking Approaches

6.9 Initiatives taken by RBI

6.10 Initiatives taken by banks

6. 11 Pieces of Financial Inclusion- present status

6.12 Urgency in enabling access

6.13 The untapped potential

6.14 The great transformation

6.15 Summing Up

6.16 Glossary

6.17 Answer to Check Your Progress Exercise

6.18 References

6.19 Questions for reflection and practice

6.1 INTRODUCTION

Financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low-income groups. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more. Governments both national and regional levels formulate number of policies and programme to bring inclusive financial services to all. The top down approach is formulating the policies at the national and regional level and implementing through various agencies of government and other semi and nongovernmental organizations. At the same time, the government will bring an enabling environment to make the communities to plan and execute the programmes in which government and other establishments act as facilitators. One such programme is formation of self help groups. In the bottom up approach, necessary resources will be provided by the governments. The detailed discuss on top down and bottom up approaches are given in unit 8 and 9 of MGS 004. In this Unit we will discuss the approaches of government with regard to financial inclusion and the various efforts taken by the government as a top down approach and the few programmes of the government and the discuss on bottom up approaches with examples.

6.2 OBJECTIVES

After studying this Unit, you would be able to

- Define top down and bottom up approaches;
- Discuss the reasons for financial exclusion;
- Explain the factors contributing for financial exclusion;
- Analyse the efforts of reserve bank of India; and
- Examine the regional rural branch efforts of financial inclusion.

6.3 TOP DOWN AND BOTTOM UP APPROACHES

The top down approach is logical mainly in new endeavours since it provides early and high level planning. It is system centric. In this approach, the each and every stage of policies and programmes planned accordingly it is implemented. The objectives of the policies and programmes in the top down approach may not allow changes in the programmes and policies in the mid way. The government of India and the state governments adopted top down

approach in its five year plans. The bottom up has a base at local level which needs to be developed and made stronger with the help of some participation from the concerned stakeholders. Participation of multi stake holders in the urban and regional planning is an accepted phenomenon in current day practice, though the idea is not new. The bottom up approach in planning may be traced back in 60's and started getting popularity among planners through decades. Although **"bottom up", "participatory", "local democracy**", "**concerted management**" and other such approaches are not exact equivalents, they are all variants of a local concentration approach and of a collective process whereby a local community can take charge of the future of its own area. It is an approach that allows the local community and local players to express their views and to help define the development course for their area in line with their own views, expectations and plans.
However, the bottom-up approach cannot be applied (nor is it applicable) systematically to all places in all circumstances. Depending on the specific cultural context of each Member State and in line with the principle of subsidiarity, the participatory process is often more of a trend or a desirable working approach than a day-to-day reality. However, there is no doubt that efforts are being made to put local communities and local development players back at the heart of the rural development process. (AR. Uttam K. Roy, Madhubanti Ganguly, 2009)

6.4 ASPECTS OF FINANCIAL INCLUSION

The term "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations.

'Major three aspects of financial inclusion is to make people to access financial markets, access credit markets and learn financial matters (financial education).

Financial Inclusion Includes accessing of financial products and Services like Savings facility; Credit and debit cards access; Electronic fund transfer; All kinds of commercial loans; overdraft facility; Cheque facility; Payment and remittance services; Low cost financial services; Insurance (Medical insurance); Financial advice; Pension for old age and investment schemes; Access to financial markets; Micro credit during emergency; Entrepreneurial credit.

Factors affecting access to financial services

The following factors will affect to access financial services.

***Legal identity*:** Lack of legal identity like voter id, driving license, birth certificates, employment identity card etc, will affect the access to financial services. In the era of globalization, migrating from one city to other and rural to urban areas in search of job opportunities is increasing. There are various factors contributing for the migration. In India the urban population is 37.7 million in the year of 2011 (as per census) i.e. the 31.16 percent of the total population. The total population in the year of 2011 was 83.3 million in rural areas and 37.7 million in urban population. This urban population of 37.7 million is very close to the American total population. The percent decadal growth of the population in rural and urban areas in the decade ending of the year 2011 was 12.2 and 31.8 percent. (Vinayakam k and S.P. sekhar, 2013). Due to lack of identity cards for the migrant populations, accessing the financial services is hampered.

Limited literacy: Particularly financial literacy and lack of basic education prevent people to have access from financial services. According to 2011 census, Literacy rate of India in 2011 is 74.04%. The Male literacy rate is 82.14% and Female literacy rate is 65.46% according to Census 2011. Among the Indian states, Kerala has the highest literacy rate 93.91% and then Mizoram 91.58%. Among the Union Territories, Lakshadweep has the highest literacy rate of 92.28%. Bihar has the lowest literacy rate in India with 63.82%.

The Male literacy is highest in Lakshadweep 96.11% and Kerala 96.02%. The Female literacy is highest in Kerala 91.98% and Mizoram 89.40%. Lowest male literacy is in Bihar 73.39%. Lowest female literacy is in Rajasthan 52.66%.

Level of income: Level of income decides to have financial access. Low income people generally have the attitude of thinking that banks are only for rich.

Terms and conditions: While getting loans or at the time of opening accounts banks places many conditions, so the uneducated and poor people find it very difficult to access financial services.

Complicated procedures: Due to lack of financial literacy and basic education, it is very difficult for those people who lack both to read terms and conditions and account filling forms.

Psychological and cultural barriers: Many people voluntarily excluded themselves due to psychological barriers and they think that they are excluded from accessing financial services.

Place of living: As the name suggests that commercial banks operate only in commercially profitable areas and they set up branches and main offices only in that areas .People who lived in under developed areas finds it very difficult to go to areas in which banks are generally reside.

Lack of awareness: Finally, people who lack basic education do not know the importance of the financial products like Insurance, Finance, Bank Accounts, cheque facility, etc.

Benefits of Inclusive Financial Growth

- **Growth with equity:** In the path of super power we the Indians will need to achieve the growth of our country with equality and equity. It is provided by inclusive finance.
- **Get rid of poverty:** Lack of financial access is one factor for persisting poverty. Access financial services for the productive and consumption purposes will facilitate the low income group to come out of poverty. Borrowing loans and other financial services for business or education or any other purpose pave way for their development .
- **Financial Transactions Made Easy:** Inclusive finance will provide banking related financial transactions in an easy and speedy way.
- **Safe savings along with financial services :** People will have safe savings along with other allied services like insurance cover , entrepreneurial loans , payment and settlement facility etc,
- **Inflating National Income:** Boosting up business opportunities will definitely increase GDP and which will be reflected in our national income growth.
- **Becoming Global Player:** Financial access will attract global market players to our country that will result in increasing employment and business opportunities.

Check Your Progress Exercise 1

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Name a few of the Financial Products and Services under Financial Inclusion

2. What are the factors affecting access to Financial Services?

6.5 FINANCIAL INCLUSION- APPROACHES

The main reason for financial exclusion is the lack of a regular or substantial income. In most of the cases people with low income do not qualify for a loan. The proximity of the financial service is another fact. The loss is not only the transportation cost but also the loss of daily wages for a low income individual. Most of the excluded consumers are not aware of the bank's products, which are beneficial for them. Getting money for their financial requirements from a local money lender is easier than getting a loan from the bank. Most of the banks need collateral for their loans. It is very difficult for a low income individual to find collateral for a bank loan. Moreover, banks give more importance to meeting their financial targets. So they focus on larger accounts. It is not profitable for banks to provide small loans and make a profit.

Financial inclusion is a great step to alleviate poverty in India. But to achieve this, the government should provide a less perspective environment in which banks are free to pursue the innovations necessary to reach low income consumers and still make a profit. Financial service providers should learn more about the consumers and new business models to reach them.

In India Financial inclusion will be good business ground in which the majority of their people will decide the winners and losers. The Indian Government has a long history of working to expand financial inclusion. Nationalization of banks in the year 1969 was a big step. In 1975 Government of India (GOI) established Regional Rural Banks (RRBs) with the same aim. It encouraged branch expansion of bank branches especially in rural areas. The RBI guidelines to bank show that 40% of their net bank credit should be lent to the priority sector. This mainly consists of agriculture, small scale industries, retail trade etc. More than 80% of our population depends directly or indirectly on agriculture. So 18% of net bank credit should go to agriculture lending. Recent simplification of KYC norms are another milestone.

The Reserve Bank of India brings various approaches to ensure the financial inclusion. With regard to top down approach, the apex bank and government formulate the policy based on existing status. Along with formulating policies based on top down approaches, the government and financial institutions encouraging community to actively participate in formulating policies which will make the community financially inclusive. The first-ever Index of Financial Inclusion to find out the extent of reach of banking services among 100 countries showed that India has been ranked 50. Only 34% of Indian individuals have access to or receive banking services. In order to increase this number, Reserve Bank of India has taken many innovative steps. One of the reasons for opening new branches of Regional Rural Banks was to make sure that the banking service is accessible to the poor. With the directive from RBI, banks in our country are now offering "No Frill" Accounts to low income groups. These accounts either have a low minimum or nil balance with some restriction in transactions. The individual bank has the authority to decide whether the account should have zero or minimum balance. With the combined effort of financial institutions, six million new 'No Frill' accounts were opened in the period between March 2006-2007. Banks are now considering this as a business opportunity in an overall environment that facilitates growth.

Check Your Progress Exercise 2

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. What is Financial Inclusion?

____

____

____

2. What are the Technologies used by the banks for Financial Inclusion?

____

____

____

6.6 THREE NATIONALIZATIONS

The three Nationalizations are important for us to know the history of the financial status of our country.

The country has battled this imbalance in financial access over the last five decades. Post-independence, the state nationalized the Imperial Bank of India in 1955 to form the State Bank of India, with the hope that the state's mandate of universal access would lend banking a more inclusive focus.

In July 1969, then Prime Minister Indira Gandhi made bank nationalization an important part of her strategy to build broad appeal, and expand key services to the poor. 14 banks were nationalized. And in April 1980, India underwent another wave of nationalization, bringing more than 90% of India's banking activity into the public sector. This too plays significance as the reach of the banking was more among those below the average level of reach of the banking services

The RBI has called the 1969 bank nationalization - the defining economic event of not just the 1960s but of the next few decades. The rise of the public sector banks and the 1:4 expansion policies which mandated four branches in unbanked areas for every new urban bank branch completely transformed India's financial landscape. Over 50,000 new bank branches were opened across India in the ensuing three and a half decades, bringing institutional banking to millions of ordinary people. These three nationalizations pay ways for the current status of the finance in our country.

6.7 CHANGING ATTITUDE - ERA OF DEREGULATION

The following top down steps are taken by Reserve bank of India for financial inclusion. There is a new rule proposed by the Reserve Bank of India. The apex bank has said that banks shall fix their individual rates of interests for savings deposits. The RBI has also favoured the deregulation of interest rates for agriculture sector, EXIM and savings account. Such deregulation is intended to encourage more financial inclusion. At present, banks are permitted to fix their own interest rates on savings deposits exceeding Rs.2 lakhs. For up to Rs.2 lakhs, the rate is fixed by the RBI.

A market-based savings interest rate will accelerate greater financial inclusion of the un-banked, and also augment a higher savings propensity. As a precursor to complete deregulation of the savings deposit rate, the only administered interest rate at present, the Reserve Bank of India (RBI) in its annual monetary policy 2011 announced a 50 basis point increase in the savings rate to align it closer to short-term market rates.

The trigger to resume the discussion on savings rate deregulation possibly comes from the stickiness in inflation resulting in a persistently negative real savings rate, which has impacted small savers the most.

The RBI may be drawing some comfort from Asian economies where deregulation of interest rates, coupled with credible monetary policy measures, not only led to enhancement and maintenance of positive interest rates, but also contributed to an increase in financial savings. In India, where a significant portion of household savings is still held in the form of cash, attractive interest rates on savings bank deposits will bring into the banking system a part of the Rs 9.5 lakh crore that households keep with themselves as cash.

One can hardly argue against the merits of deregulation that facilitates efficiency and fairness in allocation of resources:

- Empirical evidence suggests that certain population groups, such as small savers, pensioners and consumers in semi-urban and rural areas, use the savings account primarily for savings purpose and not actively for transaction purposes.

  They are also averse to maximising their returns by placing their savings in fixed deposits or other investments. Since the savings deposit interest rate has not moved in sync with changing market conditions, it has been unfavourable to this depositor community.

  A market-based savings interest rate will accelerate greater financial inclusion of the un-banked, and also augment a higher savings propensity, thereby creating a multiplier effect.
- Savings deposits constitute a significant portion (22 per cent) of total deposits in the banking system. The fixed nature of savings deposit interest rates essentially limits the impact of changes in policy rates. By allowing the entire term structure of interest rates to move in tandem with the policy rate, the transmission mechanism of monetary policy becomes more effective and timely, as is corroborated by Hong Kong's experience.
- Given the fixed-rate regime in savings deposits and the fact that urban customers are relatively insensitive to the savings bank rate, banks have resorted to "lazy banking",

with little or no meaningful innovation around the savings account product and underlying services.

Savings rate deregulation will provide greater scope for product innovation and service excellence and a better opportunity for banks to cross-sell.

The rates would essentially be driven by relationship value, future potential and efficient transaction costs. Market forces will also ensure that banks make additional efforts to educate their customers on banking services and product features.

There are fears of unhealthy competition amongst banks, which may lead to a fall in profitability. These are unreasonable considering the positive experience of deregulation in term deposit rates and other interest rates including interest rates on loans over the past decade.

Though there may be some immediate impact on the cost of deposits, resulting in a compression of net interest margins, in the long run the spin-offs of healthy operations and higher mobilisation of savings will surely benefit those banks that are service-oriented and provide tangible value to their small savings depositors.

This is what happened in insurance, telecom and pharmaceuticals once they were aligned to free market principles. India is likely to emulate Hong Kong's phased deregulation of savings rate, which was followed by the launch of several new products, revised fee charges and minimum balance requirements, and the introduction of a tiered structure of interest rates.

Finally, savings rate deregulation will create a win-win situation for both the retail depositor and the banking system, and hence we can look forward to the RBI taking this final step towards international best practices.

Check Your Progress Exercise 3

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. What is the new rule proposed by RBI?

6.8 REWORKING APPROACHES

According to D. Subbarao, then governor of RBI, the need for build additional bridges between the ordinary villager and the banks as they now exist. They have some interesting experiments in this direction to make banking services more accessible to the poor, through business correspondents located within the village, and by enabling people to make remote transactions. The objective of these steps is to shift our banking approach from a low-volume, high-cost model, to a high volume, low cost model, where large numbers of small transactions become profitable to banks, mirroring the pattern of growth in telecom. However, this goal remains strait jacketed by basic weaknesses. Fulfilling Know Your Customer norms remain a hard-to-surmount challenge for banks. Many of the poor lack the basic documentation they need to open a bank account, including a proof of identity and proof of address.

The lack of easily verifiable identity also limits the online and mobile banking services that can be delivered to the poor. Banks have tried to address this through remote authentication devices employed by village-based agents and BCs, who use smart cards to remotely verify their customers before allowing transactions. These verification systems however have remained proprietary to particular banks, limiting large-scale expansion. If such an approach existed in telecom, it would have been akin to allowing phone calls only say, between BSNL subscribers!

6.9 INITIATIVES TAKEN BY RBI

The Reserve Bank of India has set up a commission (Khan Commission) in 2004 to look into financial inclusion and the recommendations of the commission were incorporated into the mid-term review of the policy (2005–06). In the report RBI exhorted the banks with a view of achieving greater financial inclusion to make available a basic "no-frills" banking account. In India, Financial Inclusion first featured in 2005, when it was introduced, that, too, from a pilot project in UT of Pondicherry, by Indian Bank. Mangalam Village became the first village in India where all households were provided banking facilities. In addition to this, KYC (Know your Customer) norms were relaxed for people intending to open accounts with annual deposits of less than Rs. 50,000. General Credit Cards (GCC) were issued to the poor and the disadvantaged with a view to help them access easy credit. In January 2006, the Reserve Bank permitted commercial banks to make use of the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries for providing financial and banking services. These intermediaries could be used as business facilitators (BF) or business correspondents (BC) by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis. As a result of the campaign states or U.T.s like Puducherry, Himachal Pradesh and Kerala have announced 100% financial inclusion in all their districts. Reserve Bank of India's vision for 2020 is to open nearly 600 million new customers' accounts and service them through a variety of channels by leveraging on IT. However, illiteracy and the low income savings and lack of bank branches in rural areas continue to be a road block to financial inclusion in many states. Apart from this there are certain in Current model which is followed. There is inadequate legal and financial structure. India, being a mostly agrarian economy, hardly has schemes which lend for agriculture. Along with microfinance we need to focus on Micro-insurance too.

In its platinum jubilee year, the Reserve Bank of India (RBI) wants to connect every Indian to the country s banking system.

- RBI is currently working on a three-year financial inclusion plan and is discussing this with each bank to see how to take this forward.
- "Nearly forty years after nationalization of banks, 60% of the country's population does not have bank accounts and nearly 90% do not get loans according to RBI.
- Despite heightened focus on financial inclusion, Indian banks still somewhat failed to bring the under- and un-banked into the mainstream banking fold.
- India has currently the second-highest number of financially excluded households in the world. Approximately, 40% of India s population have bank accounts, and only about 10% have any kind of life insurance cover, while a meager 0.6% have non-life insurance cover.

Check Your Progress Exercise 4

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Name a few initiatives taken by RBI

____

____

____

6.10 INITIATIVES TAKEN BY BANKS

Rural banking has always been on the RBI radar. Many banks had undertaken rural banking as one of their goals. But earlier, the only way to do so was to open branches in the villages or set-up ATM machines there. These are not cost-effective considering the usage and logistics constraints. But technology has given us new ways to undertake financial inclusion and many banks have embraced technology to extend banking facilities to the unbanked in the semi-urban and rural areas of the country.

The latest initiative in this front is the 'Bank on Bike' initiative by SBI. Under this scheme, the business correspondents will go up to 3 villages for a couple of hours and conduct the banking transactions. The business correspondents could be SBI employees, government servants, school teachers or even *kirana* owners. The timing and duration of banking in each area would be fixed.

Many other banks have undertaken some activities in this front. Central Bank of India is working with the state government in Orissa to facilitate banking services for the rural poor through Financial Inclusion. The Bank started the Financial Inclusion process in 12 villages through issuance of biometric cards. The bank has appointed business correspondents who will be responsible for conducting the banking transactions with customised equipment. In the initial stages, the Business Correspondent was successful in opening more than 2000 'No Frill Accounts'.

RBI has also taken steps for financial inclusion of the rural population. The central bank conducts many workshops regarding finances and banking in villages in different parts of the country.

Nokia and Yes Bank have come together to launch mobile-payment solutions to drive financial inclusion across the country's rural and semi-urban cities. The plan is that Nokia Priority Centres and other multi-brand handset vendors will help rural population open bank accounts with Yes Bank as well as perform basic transactions like debit/credit and transfer of funds. Through a pre-paid platform, customers can debit funds at the Nokia centers, which would be transformed into digital money on the phone. There is a long way to go as this has been just initiated.

Of course some banks still opt the traditional way of financial inclusion:

- Syndicate Bank has opened more than 20 branches in villages. The bank has a target of providing banking facilities in 1620 villages by March 2012. Syndicate Bank's plan is to expand in Tier-III, IV and V areas to tap semi-urban and rural population in under banked areas. The bank opened its first such branch at Bhojpur in Punjab. The second one was in Palladam in Tamil Nadu. The bank's third branch under this initiative was inaugurated in Rajula town of Gujarat.
- There is action from ICICI Bank in rural banking as well. ICICI Bank has merged with Bank of Rajasthan which has about 40% of its branches in rural and semi-urban areas.

The issuance of biometric cards to people in rural villages and then business correspondents helping them with their transactions using customized equipment has been done by many banks in different parts of the country. It has to be seen how successful these are in bringing true financial inclusion.

6.11PIECES OF FINANCIAL INCLUSION- PRESENT STATUS

Pre-requisites for successful Financial Inclusion

The following are the pre-requisites for financial inclusion.

Appropriate Technology, Appropriate and Efficient Delivery model, Mainstream banks' determination and involvement, Strong Collaboration among Banks, Technical Service Provider, BC Services, Especially the state administration at grass-root level and Liberalization of BC model

Recent developments in technology have transformed banking from the traditional brick-and-mortar infrastructure to a system supplemented by other channels like automated teller machines (ATM), credit/debit cards, internet banking, online money transfers, etc.

The Reserve Bank of India (RBI) has enabled branchless banking by facilitating the business correspondent/facilitator model, enabling non-government organizations, micro-finance bodies, co-operative societies, grocery shops, PCOs and individuals to collect small deposits, disburse and recover certain loans, and also sell other financial products, like insurance, pension and mutual funds, and to handle small remittances and payments. But is it also true that while a large number of no-frills accounts have been opened; those that are operational have yet to reach a meaningful level? On its part, the government has also unveiled a number of initiatives to mainstream the marginalized, like making small borrowers eligible for another loan, issuing them credit cards without security, asking banks to adopt one district for 100 per cent financial inclusion, and establishment of the financial inclusion fund and the financial inclusion technology fund. This apart, there are over 83 million Kisan Credit Cards . Similarly, there are over 5 million self-help groups (SHG) having savings of almost Rs 40 billion. The Reserve Bank of India (RBI) today said that financial inclusion is not restricted merely to opening of bank accounts and should imply provision of all financial services like credit, remittance and overdraft facilities for the rural poor

6.12 URGENCY IN ENABLING ACCESS

The infrastructure for financial inclusion has come of age at the right time. India's growth has come with a radical transformation in what people aspire to achieve across income groups and communities. Previous generations had little opportunity to change the circumstances they were born into, as access to education and jobs was difficult. But in the last two decades, economic and social mobility has become a real possibility in India, and hundreds are moving across the country, to our cities and towns every day in search of opportunities – for city lights and fighting chances.

These changes mean that filling in the missing pieces that limit access to services such as finance is even more urgent. This is where the unique identity number comes in.

Connecting the dots: the unique identity number

The power of the number stems from how it serves as a universal identity infrastructure. The Aadhaar number substantially reduces the risks inherent within the BC network – it enables the bank to easily and instantly verify an individual's identity, directly or through the BC using the Aadhaar number, before they open an account, or prior to a transaction. The person can verify their identity through a number of means – through biometrics for maximum security, as well as through their demographic information, or using a PIN number.

Such verification can take place anywhere in India and through any device since the Aadhaar number and individual details are stored in a central database. The mobility it offers is unsurpassed, and it gives the poor same financial portability urban India has long had with ATMs and core banking services.

In addition, Aadhaar number verification opens up the possibility of self-service in banking transactions through a mobile phone. We can realistically consider a near-cashless economy in our villages, where individuals electronically transfer money to bank accounts with the help of mobile phones and BCs.

6.13 THE UNTAPPED POTENTIAL

Today, banks are already offering services over mobile to communities that have been historically 'unbanked'.

In rural areas, where accessibility is a problem, banks are using the microfinance network and business correspondents and facilitators to bring more people under the ambit of banking services. Capitalizing on the huge untapped potential in smaller towns and cities and rendering financial services to this segment of people poses a big challenge. "Few banks have explored technology solutions to increase the scale of their microfinance portfolios, with the use of smart cards and core banking solutions".

Often a multitude of operational issues are quoted as reasons for lagging behind in financial inclusion targets. Till such time complete technology integration takes place on all fronts, there are bound to be areas where intermediate brick-and-mortar structures need to be in place. Even with Business Correspondents (BCs) issues arise regarding their supervision and customer grievance redressal. Certain accounting issues in this regard are also being addressed. All these operational issues and many more can be resolved if banks begin to look at financial inclusion as a business opportunity rather than an obligation to fulfil their corporate social responsibility (CSR) objective.

Banks have to realize that for Business Correspondent (BC) model to succeed the BCs who are the first level of contact for customers have to be compensated adequately so that they too see this as a business opportunity. Similarly, as regards MSPs (mobile service providers) acting as BCs reports reaching the central bank still suggest that the true spirit of cooperation is yet to stabilize with each still trying to destabilize the other.

6.14 THE GREAT TRANSFORMATION

The transformation of microfinance institutions from non-profits into for-profits has been an important industry-building process during the past two decades. Today, in the more developed regions, particularly South America, transformation's low ranking probably reflects an opinion that most of the needed transformations have already happened and that new transformations are unlikely to change the landscape of financial inclusion. In less mature areas, such as Central America, transformation scored somewhat higher.

• During the past two decades the microfinance industry focused strongly on building the links to capital markets that would allow for growth. These efforts have succeeded so well that funding is no longer seen as a major obstacle. Investor markets exist, allowing the focus to move from the building blocks of financial transparency to those of social performance and the client experience.

• Some participants in microfinance in the past two decades have hoped that once the business models of microfinance were proven, mainstream commercial banks would adopt them and build microloan portfolios of their own.

6.15 SUMMING UP

Notwithstanding the regulatory, operational and other aspects in focus, financial inclusion is a complex issue which cannot be solved alone by any actors in the system. Formal financial institutions such as, banks, insurance companies, mutual funds, pension companies will have to join hands with small NGO-MFIs, larger NBFC- MFIs, and technology providers to enable inclusion. The strengths of these institutions will have to be put together through sound collaborations for financial inclusion. Local and national presence organizations have to ensure that these partnerships look at both commercial and social aspects to help achieve scale, sustainability, and impact. This collaborative model will have to tackle exclusion in two main ways:

By ensuring that there is a supply of appropriate and affordable services available to those that need them; and By stimulating demand for appropriate financial products, services and advice with appropriate delivery mechanism

These different sets of institutions have to appreciate the power of this model and collaborate to deliver to and reach the large number of masses by providing comprehensive financial services and financial advice. Such collaborations will also ensure that financial inclusion is not looked upon as a social obligation, but viable business models over time.

6.16 GLOSSARY

Business Correspondent (BC): Under the 'Business Correspondent' Model, NGOs/ MFIs set up under Societies/ Trust Acts, Societies registered under Mutually Aided Cooperative Societies Acts or the Cooperative Societies Acts of States, section 25 companies, registered NBFCs not accepting public deposits and Post Offices may act as Business Correspondents. Banks may conduct thorough due diligence on such entities keeping in view the indicative parameters given in Annex 3.2 of the Report of the Internal Group appointed by Reserve Bank of India (available on RBI website:*www.rbi.org.in*) to examine issues relating to Rural Credit and Micro-Finance (July 2005). In engaging such intermediaries as Business Correspondents, banks should ensure that they are well established, enjoying good reputation and having the confidence of the local people. Banks may give wide publicity in the locality about the intermediary engaged by them as Business Correspondent and take measures to avoid being misrepresented.

Confederation of Indian Industry (CII): The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, playing a proactive role in India's development process. Founded over 118 years ago, India's premier business association has over 7100 members, from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 enterprises from around 257 national and regional sectoral industry bodies.

CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, healthcare, education, livelihood, diversity management, skill development, empowerment of women, and water, to name a few.

6.17 ANSWER TO CHECK YOUR PROGRESS

Answer to Check Your Progress Exercise 1

1. Some of the Financial products and services of Financial Inclusion are:

- Savings facility
- Credit and debit cards access
- Electronic fund transfer
- All kinds of commercial loans
- Overdraft facility
- Cheque facility
- Payment and remittance services
- Low cost financial services
- Insurance (Medical insurance)
- Financial advice
- Pension for old age and investment schemes
- Access to financial markets

2. Factors affecting access to Financial Services are:

a. Legal
b. Limited literacy
c. Level of income
d. 'Terms and conditions
e. Complicated procedures

f. Psychological and cultural barriers
g. Place of living
h. Lack of awareness

Answer to Check Your Progress Exercise 2

1. Financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low-income groups. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more.
2. Banks are now using new technologies like mobile phones to reach low income consumers. It is possible that the telephone providers themselves will start basic banking services like savings and payments. Indian telecom consumers have few links to financial institutions. So without much difficulty telecom providers can win the battle with banks. Banks should therefore be proactive about transferring this technology into an opportunity.

Answer to Check Your Progress Exercise 3

1. There is a new rule proposed by the Reserve Bank of India. The apex bank has said that banks shall fix their individual rates of interests for savings deposits. The RBI has also favoured the deregulation of interest rates for agriculture sector, EXIM and savings account. Such deregulation is intended to encourage more financial inclusion.

Answer to Check Your Progress Exercise 4

1. Elaborate on the below mentioned initiatives taken by RBI
   a. KYC- Know Your Customer
   b. Allowing services of NGO by other banks
   c. Three year Financial Inclusion plan

6.18REFERENCES

Basu, Priya, "A Financial System for India's Poor," *Economic and Political Weekly,* September 10, 2005.

Basu, Priya and Pradeep Srivastava (2005) "Exploring possibilities: Micro finance and rural credit access for the poor in India" *Economic and Political Weekly*. April 23, pp. 1747-1756

Toma P Hendriks (Eds) **National Financial Literacy Strategy**, Nova Publishers, 2010.

Joan S Ryan **Managing your Personal Finances**, Mason: South Western Cengage Learning, 2011.

Sameer Kochhar, C. Rangarajan and K. C. Chakrabarty **Speeding Financial Inclusion** New Delhi: Academic Foundation, 2010

K. G. Karmakar, G D Banerjee and N P Mohapatra, **Towards Financial Inclusion in India** New Delhi: sage Publications, 2011

N. K. Thingalaya, M. S. Moodithaya and N. S. Shetty, **Financial Inclusion and Beyond: Issues and Challenges,** New Delhi: Academic Foundation**,** 2011

Government of India, **Committee on Financial Sector Reforms (Draft Report**), Planning Commission, Government of India, 2008

Mas, Ignacio, and Kabir Kumar. 2008. "Banking on Mobiles: Why, How, for Whom?" Focus Note 48. Washington, D.C.: CGAP, June.

Priya Basu, Improving **Access to Finance for India' Rural Poor,** Washington : The World Bank, 2008

Puhazhendhi, V and K J S Satyasai, **Microfinance for Rural People – An Impact Study**, Mumbai: NABARD, 2000.

Beatrize, Armendariz and Jonathan Morduch, **The Economics of Microfinance**, New Delhi: Prentice Hall of India Pvt. Ltd, 2007.

6.19 QUESTIONS FOR REFLECTION AND PRACTICE

1. Examine the role of Reserve bank of India in Financial inclusion.

UNIT 7 LEADERSHIP IN MICROFINANCE

STRUCTURE

7.1 Introduction

7.2 Objectives

7.3 Leadership through micro finance

7.4 Case Studies

7.5 Building business case for gender diversity

7.6 Why is gender diversity good for MFI bottom lines?

7.7 Maintaining commitment to gender diversity

7.8 Setting vision, building the policies

7.9 Redefining the culture, changing the mindsets, maintaining fairness: global experiences of multifaceted development of women

7.10 Successful women within institution- role models

7.11 Creating women role models by creating an in-house mentoring programme for high potential women

7.12 Analysing the impact of belief and assumptions

   7.12.1 Gender equality and empowerment of women

   7.12.2 Women's leadership in directing and influencing microfinance policy

7.13 Summing Up

7.14 Glossary

7.15 Answers to check your progress exercises

7.16 References

7.17 questions for reflection and practice

7.1 **INTRODUCTION**

Her wings are clipped and it is found deplorable she does not fly.

Simone de Beauvoir

There are many sayings on leadership. Among these are:

Leadership is contextual

Leadership is different than power

Leadership requires followers

Leadership emerges in all organized groups

Leadership can be learned (though not always mastered)

Good judgement is the key to good leadership

Leadership is aspirational and goal oriented (usually group goals)

(Genovese and steckenrider, 2013)

The present complex, challenged and globalized environment require women leadership with unique qualities. Women leaders may develop qualities which include weighing options in challenging environment, navigate boundaries, manage multiple relationships and responsibilities, self-awareness, understand their capabilities and juggle professional responsibilities while trying to maintain a personal life. Leaders face the paradox of being a colleague *and* a boss, a team member *and* the decision maker. Within this balance, they live a life with loneliness of the leadership role. Self-role merger, managing the boundary between herself as an individual and herself in the role of a leader, is a facet of leadership. A leader is challenged to mesh her perception of herself as a leader with information she receives from her environment, while observing and controlling how she presents herself to others. The motivation to lead can come at a personal cost on the leader as well as her family. Buffeted by conflicting demands requiring continuing negotiation and choices, she is trying to find enough time in the day to do it all.

The theme of the 2000 Microcredit Summit Campaign spelled this out very clearly:
The success of microcredit is best summarized by Noeleen Heyzer, Executive Director of the United Nations Development Fund for Women (UNIFEM): "Microcredit is about much more than access to money. It is about women gaining control over the means to make a living. It is about women lifting themselves out of poverty and vulnerability. It is about women achieving

economic and political empowerment within their homes, their villages, their countries." – Microcredit Summit Campaign 2000,

Based on the above discussion, the present Unit discusses women leadership in micro finance institutions.

7.2 OBJECTIVES

After studying this, you would be able to

- Discuss significance of women leadership in micro finance;
- Explain the contribution of micro finance institutions to built women leadership; and
- Examine the women leadership in micro finance institutions.

7.3 LEADERSHIP THROUGH MICROFINANCE

The opening up of our economy and the structural adjustment programme in 1990s in India brought challenges to both urban and rural poor women as women were rapidly losing their livelihood base due to structural adjustment programmes and macroeconomic stabilization policies. Reduction in budgetary allocation for social sectors (privatization of education and health as well as dismantling of public distribution system) and privatization of essential survival needs made lives of poor women unbearable. Drought in several parts of India and liberalization of agrarian market added fuel to fire. This led to the increasing numbers of farmer's suicides and starvation deaths. It was in this backdrop, women's leadership in micro finance through Self Help Groups (SHGs) came to the fore to provide safety net to the poorest of the poor women initially in the four Southern States- Karnataka, Andhra Pradesh, Kerala and Tamil Nadu and during the 21st century all over the country. The UN Commission on Status of Women in 2007 advised the leaders of the member countries to maximize the role of micro finance institutions, as well as ensure access to microfinance tools, including microcredit for poverty eradication, generation of employment and especially for the empowerment of women, encourage the strengthening of existing and emerging microcredit institutions and their capacities, including through the support of international financial institutions, and ensure that best practices are widely disseminated. Microfinance is also perceived as an effective strategy to reach the Millennium Development Goals (Elizabeth et. Al 2007 and Patel, Vibhuti, 2008).

India is the home to the biggest microfinance movement in the world. The microfinance in India has seen nearly full repayment, to the tune of 99%. There is 30-lakh SHGs now that account for a total of Rs 80,000-crore bank credit. About 90 per cent of the SHG members are women and the average loan availed by a SHG is Rs 61,000 (Kamdar, 2007). Self Help Groups are organisations of women from the downtrodden section of the society that empower the women to be self reliant through capacity and confidence building and by making micro-credit available and accessible to women. The SHG movement has taught women the value of saving and the strength of working as a group (Parveen, 2007). NABARD has declared that human development, if not engendered is endangered and found microfinance with Core Banking, ICTs and region specific flexibility in lending norms the most effective to attain enhanced level of human development (NABARD, 2005).While there is a need for some all India organization both for SHGs and MFIs, for sharing experiences, learning lessons and for advocating on policy related issues with the governments and other authorities, it should certainly not be government Sponsored organisation. This is considered necessary to avoid hijacking the whole movement by the politicians and the bureaucrats. Such organizations at national, state and district levels have to be need based, evolving and emerging from out of the movement itself and not super-imposed by the governmental authorities. Thus with the focus on women development in the MF industry, we can see substantial growth and empowerment of the gender in the coming years.

Operational efficiency, innovative practices, branding of products and enterprise development are given highest premium in the microfinance movement. Many SHGs in several states of India have joined right to food and right to health campaigns. They have transcended the stage of money circulation and moved towards enterprise development.

Micro finance through Self-Help Groups (SHGs) has proved to be a strategic measure for organizing women in groups and promoting savings and thrift habits to gain access to institutional credit for their socio-economic development and empowerment. (DWCD, 2005). It empowers women since it instils a perception of strength, self reliance and confidence when the poverty trap is broken. “The entire process of forming a group, of functioning in a sustained manner, of regulating finances, and being mutually accountable, is in itself projected as empowering. Rays of hope are coming from micro credit institutions which are combining economic agenda along with nurturance of women’s leadership for agenda of social justice, gender justice and women’s rights to dignified and secure life (Kazi, 2007). In India, such efforts are made by Self Employed Women's Association (SEWA), Parisar Vikas of Stree Mukti Sangathana (Mumbai), MASUM (Pune), Shakti (Banglore), Mann Deshi Mahila Sahakari Bank (Maharashtra) and DHAN foundation in Madurai, in the voluntary sector. In the government sector, MAHILA SAMAKHYA programmes in Andhra Pradesh, Uttaranchal, Karnataka, Gujarat, MAVIM in Maharashtra and Kerala's famous KUDUMBSHREE, Pudhu Vazhvu in Tamil Nadu and SERP in Andhrapraadesh have been responsible for women's leadership in micro finance (Jose, 2005). In Kerala, SHG movement has ensured new leadership among poor women. The state sponsored *Kudumbashree* mobilization has made collectives of women from the marginalized strata into very proactive in contrast to relative passivity of women of the new elite (Devika, 2007). Founded in1995 with support of district administration and funded by UNDP, Network of Voluntary Organizations of Kurnool (NOVOK), a collective of 13 non-governmental organizations (NGOs)working in Kurnool District of Andhra Pradesh (AP) has facilitated the process of formation and strengthening of people's institutions locally called 'Dalit Samakhyas' (Dalit Collective) in 347villages covering 17 Mandals and 50,000 Women Self-Help Groups. These processes of forming a collective provided an opportunity for women to emerge as leaders. The government of Tamil Nadu *Pudhu Vaazhvu* Project is an empowerment and poverty alleviation project implemented by the Rural Development and Panchayat Raj department of Government of Tamil Nadu with The World Bank assistance. The project is implemented over a 6 year period extended upto September 2014 at an outlay of Rs 717 crores. The Project covers 2509 village panchayats in 70 Backward Blocks in 16 districts.

The target population of this Project are the poor households, the most vulnerable sections including the physically challenged and the marginalized communities. The project follows the Community Driven Development approach wherein village communities identify their own needs, design and plan interventions and implement and monitor them by adopting key nonnegotiable principles of the project. There is a strong sense of ownership of the project among the community members. The implementation process of the project itself helping the women to develop their leadership skill.

We will further discuss women leadership in micro finance institutions with suitable case studies.

Check Your Progress Exercise 1

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Discuss women leadership in Microfinance.

7.4 CASE STUDIES

The following case studies bring the role of women leadership in micro finance institutions. The SHGs, Village Organizations (VOs) and Mahila Mandal Samakyas (MMS) have provided platform for women as well as expanded opportunity for them to assume leadership positions. In practice, SHG women assume leadership position as well as assume responsibilities without designation. Each group member gets an opportunity to assume as president, vice-president or treasurer in rotation. In practice this system is institutionalized in 66 percent of SHGs. (Burra, ranadive and murthy, 2005). Selection of leadership in SHG is based on two criteria. i.e. ability to function democratically as well as leadership quality. In SHG, leadership position can be assumed by anyone who has capacity to function democratically. Most of the leaders in SHG are from economically marginalized section. Dalit and Muslims are formed SHG groups and assumed leadership position.

Case 1 Poornima : The trouble shooter of Bahadur Bandi

Poornima belonged to the Bahadur Bandi village in Koppal, a backward district in Karnataka. She was married at the age of 14 and suffered her marital home. A school dropout she completed her 7th standard exams in 2008, after gap of 18 years. She joined a self help group in her village and carried out savings and credit facilities, but had no knowledge about women's issues.

The sahayogini from Mahila Samkhya Karnataka began give information on banks, loans, women's rights and other issues. Soon Poornima became an active member of the group and a Nari Adalat member due to her leadership qualities and courageous attitude.

The training and exposure visits to many places organized by Mahila Samakhya has helped her evolve as a strong and independent sangha women. The exposure visit to Gulbarga Nari Adalat was particularly inspirational to poornima.

Soon many women from neighbouring villages came to Nari Adalat in Koppal seeking her help. The want justice and support to enforce their rights as women. Most of the women who came were poor, illiterate and were from villages with little or no knowledge about their rights. They did not have the time or resources to go to courts and were fearful of going to the police station. So they found Nari Adalats as accessible forum which speaks their language and views the problem of women from their perspective.

With monthly meetings, Poornima as a member of the Nari Adalat has been able to resolve cases relating to domestic violence, child marriages, harassment and discrimination. Any cases involving criminal acts such as rape, dowry or murder are forwarded to police stations or courts.

Today, Poornima is contented woman. Just like Mahila Samakhya supported her to overcome her troubles, she is glad she can support other women with similar predicaments with assistance from Mahila Samkhya. She says Mahila Samkhya has provided a platform for her to emerge as a confident and strong woman.

Case 2 From homeless tribal to GP chief

From being a homeless, landless and rightless tribal, Janakamma has gone on to fight for the rights of her people and has managed to get a residential school upto class seven for the children of Abbalati. She plans to get a hospital and a high school sanctioned for her village. When Stree Shakti Sangha activities began in her village 20 years, she started attending Sangha meetings and sometimes travelled to 'big cities' like Mysore and Bangalore. "I had not even seen Periyapatna, seven kilometres away from Abbalati, let alone other cities," she says.

Janakamma learnt the ropes pretty fast, with support from Mahila Samakhya, was GP President-elect from her Gram Panchayat when elections took place in 2000. Needless to say, she swept the polls. When a residential school was sanctioned to their village it was 'snatched' by a nearby village. Till then, an anganwadi was being run under the tree in the village.

"We then went to Vidhana Soudha and returned with records to say that the school and hostel belonged to us. They had no option but to help us build it," she says. Eventually, the school started functioning, four teachers and three cooks were recruited and aashraya houses were built too. She preserves a photo with the then prime minister A B Vajpayee and the meeting she attended in Parliament, where a discussion pertaining to the significance of the Panchayat Raj system was held. "It gave me a great sense of conviction. I felt whatever I was doing was indeed important," she says.

They have now launched a campaign to get small shares of land for people of her community to lead a life with dignity. "We tasted success when we campaigned for ration cards. We waylaid the MLA, MP, and ministers and even met the CM to get things done for our village. This time too, we are asking for an acre or two each for families which are dependent on labour for a livelihood," she says. During her tenure, Janakamma got a lot of work done including laying of roads, installation of street lights and construction of houses worth over Rs 1.20 crore. Her Sangha members have driven out the arrack vendor who had a roaring business in the village. There are hardly any cases that reach the police station because people respect the Panchayat and its verdict. The above two case studies are adopted from Mahila Samkhya website: http://www.mahilasamakhyakarnataka.org/stories.html

Case 3

Mahila Bank: Collective intervention in the financial market

The Mahila Bank was born because women members of SHGs in Kurnool district realized that despite the four years of saving they could not avail loans larger than Rs.4,000- Rs.5,000. Commercial banks are not ready to lend large amount to women for productive purposes as most of the women do not have any kind of collateral like land, house and buildings. If such need arises, they need to depend on money lenders. The purpose of forming a SHG is to make them free from money lenders and empower them financially to stand on their own. Also the objective of forming a SHG is to bring women out of poverty by making them self reliant to sometime of economic activities. If they are not able to do, the basic purpose of forming a group itself questionable. In this scenario, The Village Organization (VOs) placed the proposal to Mahila Mandal Samakya(MMS) and they approached project officer of SAPAP. All of them informed the District Collector. The district collector mooted the idea of Mahila Bank like Srilanka where mahila bank is already operational. The Village Organization again came to village and organized brainstorming session to discuss the idea of Mahila Bank and the structure of the bank. Within a week, a large MMS meeting held. SAPAP officials, District Collector and other government official invited. Various options were discussed. Finally VOs decided to collect Rs.5000 from every group and to the bank funds. Totally Rs.550,000 collected. With the grant of DRDA the total amount came to Rs. 2.45 million. All VOs presidents were made board members of the bank and concrete rules and conditions for transactions were framed. The Mahila Bank is working successfully. In contrast to nationalized and other commercial banks, the Mahila Bank does not ask for collateral.

Source SERP, 2003:40-41

Check Your Progress Exercise 2

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Discuss Women leadership in Micro Finance through case study.

7.5 BUILDING THE BUSINESS CASE FOR GENDER DIVERSITY

Women's World Bank (WWB) has been working with institutions on gender diversity in 2008 both in response to a declining number of women at senior levels in the industry and in recognition of the strong business case for gender diversity. Borrowing a concept from corporate marketing strategy, the business case would hold that microfinance institutions (MFIs) targeting women customers will be more successful at understanding and responding to customers' needs if they mirror their market. This is not to say that men cannot or do not grasp the needs of a female client base, but rather that having women's voices at the tables where decisions are made about which products to offer, and how, will lead to decisions that are more responsive to women clients. Differentiation in the market as a gender diverse organization attracts not only top female talent but can have corresponding benefits in attracting new women clients. These concepts seem even more relevant today as the microfinance industry, particularly in South Asia, is being forced to look inward and explore what it means to focus on customers and re-examine its commitment to the mission of poverty alleviation.

The concern in the industry is that such changes compromise the effectiveness of leadership and ongoing focus on the mission of helping poor women. In 2009, WWB founded the Center for Microfinance Leadership to engage diverse leaders with the skills and values to both understand microfinance's dual objectives of financial stability and poverty alleviation, and set the vision, principles and practices of the sector. Founded in partnership with the Wharton School of the University of Pennsylvania and executive development firm Creative Métier Limited, the Centre offers individual leadership programs, coaching, and practitioner exchanges, as well as institutional programs designed to improve gender diversity and develop managerial talent.

7.6 WHY IS GENDER DIVERSITY GOOD FOR MFI BOTTOM LINES?

Inter Action's Commission on the Advancement of Women (CAW) which was created to give enhanced visibility and priority to gender equality carried out a groundbreaking case study on the impact of gender mainstreaming. Inter Action's study asked: Does gender mainstreaming work? Does it make a difference for clients, their families, and their communities? Does it bring any benefits for men as well as for women? Does the effort of gender mainstreaming distract an organization from its mission or does it enhance the organization's performance? After in-depth research on five international NGOs in four African countries and interviews with nearly 900 people in 16 communities, the Inter Action study concluded that gender mainstreaming can "impact the bottom line of development by catalyzing profound changes in people's lives…."

Just as microfinance organizations have known and acted on the link between women and poverty in the design of programmess and targeting of clients, the InterAction study also pointed to the success of gender mainstreaming when it was linked to "the improvement of programme quality and, specifically, to the eradication of poverty. Initial skeptics were won over by the visible, tangible benefits that accrued not only to women, but to men, their families and their communities."

One specific case was that of CARE Niger, which implemented a women's savings and credit program called Mata Masu Dubara (MMD)—"Women on the Move." In addition to a gender audit, CARE Niger carried out a number of gender-related activities to ensure that it had the political will, technical capacity, accountability systems, and organizational culture necessary to bring about positive change related to gender. To pick just a few of many steps, CARE Niger increased women in its senior management, created a Young Professional Programme to recruit and train young women and men, and enlisted support from women elders and religious leaders.

Clients reported increases in personal and family income and gains in purchasing power and ownership. For instance, women were now able to pay for weddings, naming ceremonies, and funerals, giving them increased status in their communities. Their ability to contribute economically also gave them more input into such decisions as when and whom their children marry. Not only did women benefit, but the community benefited as well. For example, women used their earnings to buy a donkey, a cart, and large barrels to supply their drought ridden village with water.

Check Your Progress Exercise 3

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Why is gender diversity good for MFI bottom lines?

7.7 MAINTAINING A COMMITMENT TO GENDER DIVERSITY

During last two decades, the SHG Movement has successfully dealt with male opposition. Many SHG leaders who have made judicious use of micro finance have been elected in panchayati raj institutions. In Karnataka, Varija of Kaveri Mahila Sangh in Manchanbelle village said," Initially when we started going out to attend meetings, men were criticizing us. Even though I was a member of School Development Management Committee, I was not allowed to sit with them in the meeting. After success of our SHG, they started giving us respect. They asked their wives to take interest in the SHGs. We also selected one of our members to contest PRI election and actively canvassed for her. Even on the previous night of the election, we did door-to-door campaign for her. She got elected."

Diverse Economic Activities of SHGs: In Magadi and Nelamangala SHG members are doing varied economic activities- vegetable and flower selling, onion and garlic selling, coconut and tamarind selling, petticoat business, animal husbandry-cows, goats, buffaloes, brick making. Kempamma owned a bangle shop. Puttamma owned a provision store. Kittur Rani Chennama SHG has taken flower garden on lease and all 14 members share the profit. They also prepare sweetmeat and snacks and boys sell them in nearby villages.

7.8 SETTING THE VISION, BUILDING THE POLICIES

The vision

The vision is to create more empowered women as entrepreneurs from the under privileged group.

The Policies

Building Policies such that the less fortunate women are given more empowerment and opportunities from the various SHGs so that the calibre is brought out and more importantly, the economic status of the women in the society is uplifted

Some of the recommendations

- Showcase successful women within the institution;
- Create an in-house mentoring programme;
- Develop a fast-track program for high-potential women;
- Offer on-site or facilitated childcare;
- Grant flexible work schedules and responsive leave packages;
- Establish gender diversity targets; and
- Use process mapping as a tool for improving staff experiences.

7.9 REDEFINING THE CULTURE, CHANGING THE MINDSETS, MAINTAINING FAIRNESS: GLOBAL EXPERIENCES OF MULTIFACETED DEVELOPMENT OF WOMEN

Globally also, empowering impact of micro finance has been documented by many researchers. Making a strong case for microfinance activities, Hashmi (2004) cites the following empirical evidence in support of micro credit:

•In Zimbabwe clients were able to maintain consumption levels in the face of rising food costs. Experience shows that this impact on poverty alleviation intensifies the longer clients stay with a given programme, thus reinforcing the benefits of continuing in the programme.

•CRECER (Credito Con Educacion Rural) in Bolivia found that incomes of two-thirds of its clients had increased after joining the programme.

•Clients of BRAC (Bangladesh Rural Advancement Committee) who stayed in the programme for more than four years increased household expenses by 28 percent and assets by 112 percent.

•SHARE (Society for Helping Awakening Rural Poor through Education) in India documented that 75 percent of its clients who participated for longer periods saw significant improvements in their economic well-being.

•One of the first things poor people do with their new income from microenterprise is invest in their children's education. BRAC, SEWA (Self- Employed Women's Association, India) and Save the Children (Honduras) saw that clients' children were more likely to go to school, stay in school longer and have lower drop-out rates. Families with access to microfinance services have better health than those who do not.

7.10 SUCCESSFUL WOMEN WITHIN THE INSTITUTION- ROLE MODELS

Showcasing a particular example as role model for the rest of the women community within the Organization is a highly effective way to inspire women. Similar to a mentoring programme, showcasing the stories of successful women that other women staff members can relate to is a powerful way for an organization to convey the message: you can do this too. It is important that these success stories reflect a range of experiences to ensure that they will resonate with as broad a group as possible. Of course these kinds of motivational efforts must be made in parallel to structural changes that break the old ways of working that may be the most significant barriers for women's advancement

7.11 CREATING WOMEN ROLE MODELS BY CREATING AN IN-HOUSE MENTORING PROGRAMME FOR HIGH-POTENTIAL WOMEN

Envisioning the possible is one of the most powerful gifts a mentor can give to a mentee. MFIs can design mentoring programmes for both women and men as a means to identify and encourage the advancement of high potential staff. A recent publication on mentoring explains such a programme "acts as an organizational catalyst for learning, personal and professional growth, and positive change." The challenge is to set up a programme that has senior management's explicit support and that is well defined, with clear guidelines and instructions for both mentors and mentees. The most successful mentoring programmes are those in which the mentee is empowered to drive the relationship, but is also responsible for having explicit goals at its outset. In many institutions, there are few examples of women's success in the higher ranks of management.

In many MFIs, women are crowded into the more traditional “female” roles, such as HR, and are unable to envision career paths for themselves in other departments. An inherent cost of this kind of gender segregation is that highly talented women are unable to achieve their full potential within the organization.

The goal of any of these programs is to create a truly meritocratic organization. In many cases, this means levelling what has to date been an unfair playing field.

7.12 ANALYSING THE IMPACT OF BELIEF AND ASSUMPTIONS

Assumptions and beliefs individuals have of themselves and others, particularly as they relate to gender. Through a facilitated workshop using group exercises, role-playing scenarios and discussions, staff can begin to understand issues of gender and how they may impact the performance of the organization. When the mind is willing to change and adapt to the new culture of the nation, new beliefs will start floating. This kind of culture should set in the entire society to welcome the leadership of women across the community.

7.12.1 Gender Equality and Empowerment of Women

SHGs established by Stree Mukti Sangathana (SMS) consciously focus on women’s liberation from cruel patriarchal forces operating among poorest of the poor women doing stigmatized work of recycling of garbage in the lowest rung of economic hierarchy in the metropolitan centres such as Mumbai and Pune.

Social Empowerment

SMS has dedicated itself to the Women’s Cause. It has developed lot of material using various audio visual forms over the years such as theatre (its famous play Mulagi Zali Ho or Beti AayiHai), songs, CDs. Poster exhibitions etc. on various issues pertaining to women and children. All this was extensively used while conducting various awareness programs in the communities, SMS also used the material developed by other organizations like Pratham, Tathapi, Institute of Health Management, Pachod etc. for this purpose. SMS regularly organizes awareness and leadership development camps (36 Sessions) for the SHG group leaders with many inputs such as Equality, Solid Waste Management, Health, Importance of Education, Work Culture, P.D.S., Atrocities, Effective Parenting etc.

Gender Sensitive and Environment Friendly Economic Empowerment of Women

SMS Established two training centres in M-ward (Chembur), for training Parisar Bhaginis (Environment Sisters) in bio composting, vermin culture and gardening. 300 women have been trained in manure and gardening techniques so far. As a result of this 250 women have gained meaningful employment.

7.12.2 Women's Leadership in Directing and Influencing Microfinance Policy

To give new direction and to influence microfinance policy, SHGs have formed state and national level federations. Federations are formed because Individual SHGs can't be effective. Three members of each SHGs are selected for mandal level organizations. From each mandala a federation leader (FL) is selected. The FLs are not supposed to handle money. They have supervisory role and pass on information about new schemes, sources of funds, etc to the mandalas. The federation acts as are source centre for information and knowledge dissemination on bank, corporation, Zilla Panchayat, Taluk Panchayat, Gram Panchayat, Small manufacturing Enterprises, Public Health Centres, government programmes, schemes, food and civil supply officer, Women and Child Development Department's initiatives and activities of 23 mandalas and other federations. Not only in Karnataka, the states like Tamil Nadu and Andhra Pradesh also encourage Self Help groups to form as federation at Taluk /block level for exposure, sharing of information and inculcating leadership quality.

Women's federations' network encourages for policy advocacy. The federation members regularly interact with state and district level officials and elected representatives for policy advocacy. During the last one decade, from collective wisdom of the micro finance movement, various policy recommendations for strengthening the SHGs have emerged.

Check Your Progress Exercise 4

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Discuss Women's Leadership in Microenterprise, Livelihoods, Employment, Agriculture and Land Facilitating Land leasing to the SHG Federation.

____

____

____

2. Give examples of social empowerment

7. 13 SUMMING UP

The promise of microfinance is one of empowerment—empowering low-income women through access to credit to invest and grow their businesses, provide for their families, and support their communities. There is another aspect to that promise of empowerment: empowering women staff members and managers through the removal of organizational and cultural barriers to perform, excel and lead. Women will continue to play a critical role in the leadership and delivery of financial services for low-income entrepreneurs, but organizational efforts must be made to ensure that equal opportunity exists for all qualified staff.

7.14 GLOSSARY

Human Resources: Human resources is the set of individuals who make up the workforce of an organization, business sector, or economy. "Human capital" is sometimes used synonymously with human resources, although human capital typically refers to a more narrow view (i.e., the knowledge the individuals embody and can contribute to an organization). Likewise, other terms sometimes used include "manpower", "talent", "labour", or simply "people".

Women's World Banking: Women's World Banking is the global non-profit devoted to giving more low-income women access to the financial tools and resources they require to build security and prosperity. For more than 35 years we have worked with financial institutions to show them the benefit of investing in women as customers, and as leaders. We continue to equip these institutions with in-depth market research, with sustainable financial products and consumer education to meet women's needs. Women are typically good clients and reinvest in their families and communities. Yet women remain an underserved market—so we equip financial institutions around the world to serve them. We perform market research to learn what financial products and information low-income women need, and develop innovative, practical ways for institutions to do business with women.

7.15 ANSWER TO CHECK YOUR PROGRESS EXERCISE

Check Your Progress Exercise 1

1. Micro finance through Self-Help Groups (SHGs) has proved to be a strategic measure for organizing women in groups and promoting savings and thrift habits to gain access to institutional credit for their socio-economic development and empowerment. (DWCD, 2005). It empowers women since it instils a perception of strength, self reliance and confidence when the poverty trap is broken. "The entire process of forming a group, of functioning in a sustained manner, of regulating finances, and being mutually accountable, is in itself projected as empowering.

Check Your Progress Exercise 2

1. Poornima belonged to the Bahadur Bandi village in Koppal, a backward district in Karnataka. She was married at the age of 14 and suffered her marital home. A school dropout she completed her 7th standard exams in 2008, after gap of 18 years. She joined a self help group in her village and carried out savings and credit facilities, but had no knowledge about women's issues. The sahayogini from Mahila Samkhya Karnataka began give information on banks, loans, women's rights and other issues. Soon Poornima became an active member of the group and a Nari Adalat member due to her leadership qualities and courageous attitude. The training and exposure visits to many places organized by Mahila Samakhya has helped her evolve as a strong and independent sangha women. The exposure visit to Gulbarga Nari Adalat was particularly inspirational to poornima. Soon many women from neighbouring villages came to Nari Adalat in Koppal seeking her help. The want justice and support to enforce their rights as women. Most of the women who came were poor, illiterate and were from villages with little or no knowledge about their rights. They did not have the time or resources to go to courts and were fearful of going to the police station. So they found Nari Adalats as accessible forum which speaks their language and views the problem of women from their perspective. With monthly meetings, Poornima as a member of the Nari Adalat has been able to resolve cases relating to domestic violence, child marriages, harassment and discrimination. Any cases involving criminal acts such as rape, dowry or murder are forwarded to police stations or courts.

Today, Poornima is contented woman. Just like Mahila Samakhya supported her to overcome her troubles, she is glad she can support other women with similar predicaments with assistance from Mahila Samkhya. She says Mahila Samkhya has provided a platform for her to emerge as a confident and strong woman.

Check Your Progress Exercise 3

1. Just as microfinance organizations have known and acted on the link between women and poverty in the design of programs and targeting of clients, the InterAction study also pointed to the success of gender mainstreaming when it was linked to "the improvement of program quality and, specifically, to the eradication of poverty. Initial skeptics were won over by the visible, tangible benefits that accrued not only to women, but to men, their families and their communities."

Check Your Progress Exercise 4

1. Eleventh Plan Subgroup on Gender and Agriculture, Planning Commission, GOI has recommended that SHGs should be allocated land for agricultural activities after identification of land from the open market and its quality must be assured by the committee of SHG federation. Land Leasing of SHG federation with land owners must be ensured by entering into a formal tenancy arrangement for fixed term. Identification of beneficiary and appraisal through a committee of SHG federation should be respected by the authorities.
2. SMS has dedicated itself to the Women's Cause. It has developed lot of material using various audio visual forms over the years such as theatre (its famous play Mulagi Zali Ho or Beti AayiHai), songs, CDs. Poster exhibitions etc. on various issues pertaining to women and children. All this was extensively used while conducting various awareness programs in the communities, SMS also used the material developed by other organizations like Pratham, Tathapi, Institute of Health Management, Pachod etc. for this purpose. SMS regularly organizes awareness and leadership development camps (36 Sessions) for the SHG group leaders with many inputs such as Equality, Solid Waste Management, Health, Importance of Education, Work Culture, P.D.S., Atrocities, Effective Parenting etc

7.16 REFERENCES

1. Speeding Financial Inclusion by Sameer Kochhar, C. Rangarajan and K. C. Chakrabarty (Aug 1, 2010)
2. http://femaleleadership.org
3. Balsaraf, Kusum (2007) 'Microfinance Model of Mahila Arthik Vikas Mahamandal (MAVIM)'in Kamdar, Sangita (ed.) Micro Finance, Self Employment and Poverty Alleviation , Mumbai:Himalaya Publishing House.
4. Deshmukh-Ranadive, Joy (2008) "Can Micro Finance Empower Women?" Lecture delivered atthe Prof. Anupama Shah Lecture Series Programme, at HSECAA-Home Science Extension and Communication Alumni Association, M.S. University, Vadodara, 10, March 2008
5. Narender K. (2007) 'Microfinance for Poverty Re-education-The Dhan Foundation experience in Kamdar, Sangita (ed.) Micro Finance, Self Employment and Poverty Alleviation , Mumbai: Himalaya Publishing House.
6. Thekkekara, T.F. (2007) 'The SHG Movement in South Asia-A Perspective on empowerment of Women' in Kamdar, Sangita (ed.) Micro Finance, Self Employment and Poverty Alleviation ,Mumbai: Himalaya Publishing House.
7. Women's Leadership in Micro Finance: Issues and Challenges byDr. Vibhuti Patel, DIRECTOR, P.G.S. R.-Paper presented at Refresher Course on Emerging Trends in Economics in Post Liberalised Era by Department of Economics, University of Mumbai, 11th Sept. 2008.
8. Patel, Vibhuti **Women's leadership in Micro Finance: issues and Challenges,** Presented at refresher course on emerging trends in economics in post liberalized era by Department of Economics, University of Mumbai, 11th sep, 2008.

7.17QUESTIONS FOR REFLECTION AND PRACTICE

1. Examine the role of micro finance in building leadership with suitable national and international examples.

UNIT 8 CORPORATE SOCIAL RESPONSIBILITY

STRUCTURE

8.1 Introduction

8.2 Objectives

8.3 What is corporate social responsibility?

8.4 The key drivers for CSR

8.5 Different approaches to CSR
8.6 Components of CSR

8.7 Elements of CSR

8.8 Benefits of CSR

8.9 Types of CSR

8.10 Corporate Social Responsibility in India

8.11 Criticisms of CSR
8.12 Ethical Consumerism

8.13 Globalization and market forces

8.14 Social awareness and education

8.15 Ethics Training

8.16 Summing Up

8.17 Glossary

8.18 Answer to Check Your Progress Exercise

8.19 References

8.20 Questions for reflection and practice

8.1 INTRODUCTION

Corporate social responsibility (CSR) is also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business form of corporate. Self regulation is integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby business monitors ensure its active compliance with the spirit of the law, ethical standards, and international norms. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities,stakeholders and all other members of the public sphere. Furthermore, CSR-focused businesses would proactively promote the public interest (PI) by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. CSR is the deliberate inclusion of PI into corporate decision-making that is the core business of the company or firm, and the honouring of a triple bottom line: people, planet, profit.

The term "corporate social responsibility" came in to common use in the late 1960s and early 1970s, after many multinational corporations were formed. The term stakeholder, meaning those on whom an organization's activities have an impact, was used to describe corporate owners beyond shareholders as a result of an influential book by R. Edward Freeman,*Strategic management: a stakeholder approach* in 1984. Proponents argue that corporations make more long term profits by operating with a perspective, while critics argue that CSR distracts from the economic role of businesses. Others argue CSR is merely window-dressing, or an attempt to pre-empt the role of governments as a watchdog over powerful multinational corporations.

CSR is titled to aid an organization's mission as well as act as a guide to what the company stands for and will uphold to its consumers. Development business ethics is one of the forms of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment. ISO 26000 is the recognized international standard for CSR (currently a Draft International Standard). Public sector organizations (the United Nations for example) adhere to the triple bottom line (TBL). It is widely accepted that CSR adheres to similar principles but with no formal act of legislation. The UN has developed the Principles for Responsible Investment as guidelines for investing entities.

Corporate Social Responsibility (CSR) is becoming an increasingly important activity to businesses nationally and internationally. As globalisation accelerates and large corporations serve as global providers, these corporations have progressively recognised the benefits of providing CSR programmes in their various locations. CSR activities are now being undertaken throughout the globe.

8.2 OBJECTIVES

After studying this Unit, you should be able to

- Define and discuss corporate social responsibility;
- Explain the approaches, components and elements of CSR;
- Examine the benefits of CSR activities in India; and
- Analyze the overall CSR activities in India and the World.

8.3 WHAT IS CORPORATE SOCIAL RESPONSIBILITY?

The term is often used interchangeably for other terms such as Corporate Citizenship and is also linked to the concept of Triple Bottom Line Reporting (TBL), which is used as a framework for measuring an organisation's performance against economic, social and environmental parameters. The rationale for CSR has been articulated in a number of ways. In essence it is about building sustainable businesses, which need healthy economies, markets and communities (http://www.positiveoutcomes.com.au).

8.4 THE KEY DRIVERS FOR CSR

The following are the key drivers for Corporate Social Responsibility(CSR)

- Enlightened self-interest - creating a synergy of ethics, a cohesive society and a sustainable global economy where markets, labour and communities are able to function well together.

- Social investment - contributing to physical infrastructure and social capital is increasingly seen as a necessary part of doing business.

- Transparency and trust - business has low ratings of trust in public perception. There is increasing expectation that companies will be more open, more accountable and be prepared to report publicly on their performance in social and environmental arenas.

- Increased public expectations of business - globally companies are expected to do more than merely provide jobs and contribute to the economy through taxes.

(http://www.positiveoutcomes.com.au)

8.5DIFFERENT APPROACHES TO CSR

An approach for CSR that is becoming more widely accepted is a community-based development approach. In this approach, corporations work with local communities to make themselves better. Often the activities in which companies participate are establishing education facilities for adults, providing sanitation facilities in poor countries and HIV/AIDS education programmes etc.

A more common approach of CSR is philanthropy. This includes monetary donations and aid given to local organizations and impoverished communities in developing countries. Some organizations do not like this approach as it does not help build on the skills of the local people, whereas community-based development generally leads to more sustainable development.

Another approach to CSR is to incorporate the CSR strategy directly into the business strategy of an organization. Another approach is garnering increase in corporate responsibility interest. This is called Creating Shared Value, or CSV. The shared value model is based on the idea that corporate success and social welfare are interdependent. A business needs a healthy, educated workforce, sustainable resources and adept government to compete effectively. For society to thrive, profitable and competitive businesses must be developed and supported to create income, wealth, tax revenues, and opportunities for philanthropy.

CSV received global attention in the Harvard Business Review article *Strategy & Society: The Link between Competitive Advantage and Corporate Social Responsibility* by Michael E. Porter, a leading authority on competitive strategy and head of the Institute for Strategy and Competitiveness at Harvard Business School; and Mark R. Kramer, Senior Fellow at the Kennedy School at Harvard University and co-founder of FSG Social Impact Advisors. The article provides insights and relevant examples of companies that have developed deep linkages between their business strategies and corporate social responsibility. Many approaches to CSR pit businesses against society, emphasizing the costs and limitations of compliance with externally imposed social and environmental standards. CSV acknowledges trade-offs between short-term profitability and social or environmental goals, but focuses more on the opportunities for competitive advantage from building a social value proposition into corporate strategy.

Many companies use the strategy of benchmarking to compete within their respective industries in CSR policy, implementation, and effectiveness. Benchmarking involves reviewing competitor CSR initiatives, as well as measuring and evaluating the impact that those policies have on society and the environment, and how customers perceive competitor CSR strategy. After a comprehensive study of competitor strategy and an internal policy review performed, a comparison can be drawn and a strategy developed for competition with CSR initiatives.

http://www.industryplayer.com/corporate_social_responsibility.php

8.6 COMPONENTS OF CSR

CSR attempts to counteract any negative effects that corporations have on society and replace them with constructive influence. The four stakeholders who are a part of this process include:

Employees

The treatment of employees by large corporations has often come under scrutiny by political organizations and human rights groups. Particularly in developing countries, where many resource extraction industries have extensive operations, there are on-going questions about how equitable working conditions and pay levels are. CSR seeks to assist corporations in treating both domestic and foreign employees equitably by providing safe and comfortable working conditions and a fair wage. This approach continues the ongoing transformation of a corporate mentality that was common in the nineteenth century, in which the rights of employees barely registered among the concerns of company owners.

Customers

Corporations have an obligation to provide safe, effective and good-quality products and services to their customers. A purely free-market analysis of this responsibility would state that these requirements will be met by the dictates of the market. The philosophy of CSR questions the truth of this belief, and advocates more proactive intervention into the relationship between corporations and their customers. Consumer protection initiatives, such as those advocated by Ralph Nader, help to provide the legal backing under which consumers can challenge what they see as questionable practices on the part of corporations.

Environment

Growing public awareness of environmental challenges involving toxins, resource depletion and climate change is forcing corporations to reconsider the traditional corporate view of the natural world as an unending cornucopia of resources. Environmental aspects of CSR encourage corporations to consider the finite nature of the natural world, and to take much more stringent measures to reduce waste, address polluting or destructive practices and integrate alternative energy systems and innovative waste-reduction programs. This shift in attitude is particularly critical in areas of South America and Africa, where corporations have extensive operations but are not subject to strict oversight and regulation.

Society

In addition to their responsibilities to employees, customers and the natural world, corporations are responsible for their impact on human society. Many millions of people who are not employed by a corporation and who do not purchase its products are nevertheless affected by its activities. CSR recognizes the interrelated nature of society, and acknowledges that no individual or company can exist totally isolated from the rest of society. Therefore, corporations need to critically analyze what impact their activities have, for good or ill, on surrounding communities, and take steps to maximize the good and minimize the ill.

8.7 ELEMENTS OF CSR

Historically, the main responsibility of corporations has been the generation of profits, or what could be called corporate financial responsibility. However, as the public, the government and the corporations themselves become more aware of the power wielded by major business organizations, the concept of corporate social responsibility became more prevalent. For some, CSR is sheer idealism, but for others it is not just the right thing to do, but also a smart business move.

Scope

Just as there is no single definition of CSR, there is not a specific set of rules or concerns to be followed by socially responsible corporations. The social responsibilities of a financial organization, a food company and a health provider are likely to have significant differences. There are, however, some core concerns that tend to be present in one way or another in all socially responsible organizations: respect for human rights, a preoccupation with environmental sustainability, and a concern for the interest of all the stakeholders (including employees, customers, and members of the surrounding community) as opposed to a single-minded pursuit of the interests of the shareholders.

Benefits

The case for corporate social responsibility can be framed from multiple perspectives: moral, ethical, religious and environmental, among others. The World Business Council for Sustainable Development has decided to emphasize the business case, however, as corporations are more likely to adopt socially responsible practices if they make business sense.Thus, CSR can be seen as a mechanism to gain support from non-financial yet important stakeholders like workers, customers, suppliers and local community organizations that can influence firm outcomes. It also has been highlighted that, all other things being equal, consumers, suppliers and employers prefer to deal with companies they trust and that in becoming a differentiating factor, CSR can become a strategic component of reputation building.

Criticisms

The movement towards increased corporate social responsibility has not been excent of criticisms. The influential economist Milton Friedman argued that CSR was a misuse of corporate resources; since businesses are owned by their shareholders, money invested on projects beyond the core business that do not add to the bottom line can be seen as money stolen from its rightful owners. Likewise, CSR has been seen as an attempt by corporations to take roles better suitted for governments. These criticisms can be ameliorated by making the CSR strategy an integral part of the brand identity, and by making it work in synergy to the core business operations.

Corporate governance and social responsibility are strongly correlated in the 21st century business environment. Business Dictionary points out that the traditional meaning of corporate governance is the methods used by companies to protect its financiers (e.g., investors and creditors). However, new expectations from other stakeholders have forced companies to broaden the focus of corporate governance to include accountability to customers, suppliers, employees, the government and community. This ethical accountability to stakeholder groups is the essence of corporate social responsibility (CSR).

Check Your Progress Exercise 1

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

Q1: What is corporate social responsibility?

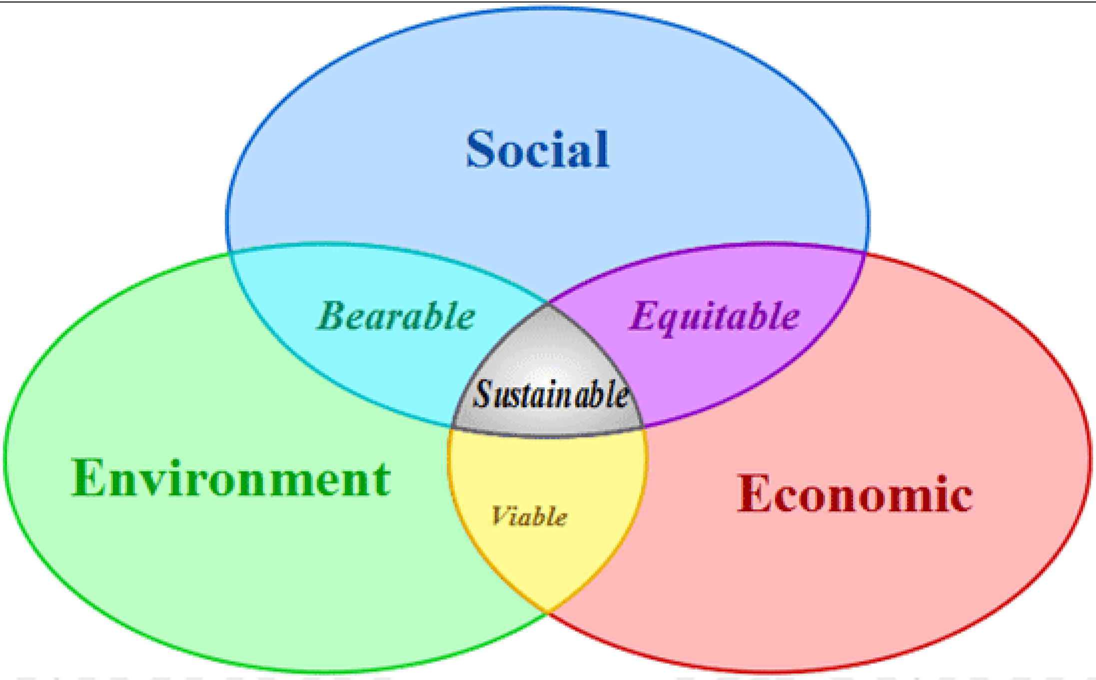
____

____

2. What are the key drivers for CSR?

3. What are the four components of CSR?

8.8 BENEFITS OF CSR



Ref: USAID's SLDP, corporate social responsibility (CSR) activities, Nis, June 8, 2012

The scale and nature of the benefits of CSR for an organization can vary depending on the nature of the enterprise, and are difficult to quantify, though there is a large body of literature exhorting business to adopt measures beyond financial ones (e.g., Deming's Fourteen Points, balanced scorecards). Orlitzky, Schmidt, and Rynes found a correlation between social/environmental performance and financial performance. However, businesses may not be looking at short-run financial returns when developing their CSR strategy.

The definition of CSR used within an organization can vary from the strict "stakeholder impacts" definition used by many CSR advocates and will often include charitable efforts and volunteering. CSR may be based within the human resources, business development or public relations departments of an organisation, or may be given a separate unit reporting to the CEO or in some cases directly to the board. Some companies may implement CSR-type values without a clearly defined team or programme.

The business case for CSR within a company will likely rest on one or more of these arguments:

Human resources

A CSR programme can be an aid to recruitment and retention, particularly within the competitive graduate student market. Potential recruits often ask about a firm's CSR policy during an interview, and having a comprehensive policy can give an advantage. CSR can also help improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering. CSR has been found to encourage customer orientation among frontline employees. Corporate Social Entrepreneurship is another possibility, whereby CSR can also be driven by employees' personal values, in addition to the more obvious economic and governmental drivers.

Risk management

Managing risk is a central part of many corporate strategies. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or environmental accidents. These can also draw unwanted attention from regulators, courts, governments and media. Building a genuine culture of 'doing the right thing' within a corporation can offset these risks.

Brand differentiation

In crowded marketplaces, companies strive for a unique selling proposition that can separate them from the competition in the minds of consumers. CSR can play a role in building customer loyalty based on distinctive ethical values. There are major brands which are built on ethical values. Business service organizations can benefit too from building a reputation for integrity and best practice.

License to operate

Corporations are keen to avoid interference in their business through taxation or regulations. By taking substantive voluntary steps, they can persuade governments and the wider public that they are taking issues such as health and safety, diversity, or the environment seriously as good corporate citizens with respect to labour standards and impacts on the environment.

8.9 TYPES OF CSR

As large corporations begin to dominate the world economy, it raises questions about the importance of corporate social responsibility in business. A variety of types of corporate social responsibilities have emerged in public discussions, and understanding their implications is important.

Environmental Responsibility

People expect businesses to exhibit environmentally responsible behavior, as evidenced by a PricewaterhouseCoopers survey that found that the No. 1 issue for companies in the future, according to U.S. respondents, is carbon emissions reductions. Specific environmental issues that affect businesses include global warming, sustainable resources and pollution. Businesses are being urged by environmental groups and governments to reduce their carbon footprint, to obtain their materials from sustainable sources and to reduce their pollution.

Human Rights Responsibility

The 21st-century marketplace is highly global. This means that when a product is purchased in the United States, for example, it may have been produced in China, or have components from South America. The ethical issue for corporations is ensuring that human rights are respected throughout all levels of the supply chain. Major companies have received criticism for their use of sweat shops and for sourcing resources that are harvested by unfairly treated workers. This has lead to a push for the use of strict labor standards to be applied to suppliers, and a demand for fair trade products such as chocolate and coffee.

Financial Responsibility

Financial responsibility is an important issue in corporate social responsibility. In the wake of the accounting fraud perpetrated by Enron and Arthur Andersen and Ponzi schemes orchestrated by the likes of Bernie Madoff, businesses are questioned about the accuracy of their financial reporting by increasingly skeptical shareholders and government officials, as evidenced by the Sarbanes-Oxley Act. Employees are expected to act as whistle blowers in such situations, and white collar crime is seeing high-profile prosecutions like that of Martha Stewart or former Worldcom CEO Bernie Ebbers.

Political Responsibility

Trading with repressive regimes is a difficult issue in corporate social responsibility. Some businesses argue that working with these regimes will help to advance them and bring rights to the countries. People and governments have demanded that businesses stop trading with repressive regimes, which was most notably observed when several western governments launched an embargo against the Apartheid government in South Africa during the 1980s. Shell Oil received considerable consumer backlash during the 1990s for its complicit involvement with the Nigerian government that murdered anti-oil activists. These issues make doing business with certain governments an important consideration for corporate social responsibility.

Check Your Progress Exercise 2

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

Q1: What are the benefits of CSR?

____

____

____

____

Q2: What are the types of CSR in practice?

____

____

____

____

8. 10 CORPORATE SOCIAL RESPONSIBILITY IN INDIA

Corporate Social Responsibility (CSR) has been on the agenda in India for a considerable period. Most big Indian corporations are engaged in some CSR activities. As is the case in many countries, the private sector is generally more active in this area than the governmental/public sector.

Several major CSR initiatives have been launched in India since the mid-1990s. Among these is the first voluntary code of corporate governance, "*Desirable Corporate Governance: A Code*", established in April 1998. This was an initiative by the Confederation of Indian Industry (CII), India's largest industry and business association.

A CSR project can begin in response to a crisis or adverse publicity that a company may suffer. The motive for launching CSR can vary between philanthropy and notions of corporate citizenship. In India, over time, the expectations of the public has grown enormously with demands focussing on poverty alleviation, tackling unemployment, fighting inequality or forcing companies to take affirmative action.

The historical driver of CSR has been philanthropy or a sense of ethics. After the Second World War, a variety of national and international regulations arose through organizations such as the International Labour Organisation (ILO), emphasising the need for an active social policy for transnational companies (TNCs). This additional driver, international institutions, has relevance for India through the work of the ILO, the
OECD, Socially Responsible Investment (SRI), the SA8000 Social Accountability scheme and through the work of the UN Commission on Human Rights, which tackled the human rights responsibilities of TNCs.

In India, some public sector companies can spend up to 5% of their profits on CSR activities. Pressure groups have been quite successful in inducing companies to fund CSR schemes, even to the point of using kidnapping as a tactic! Forms of CSR differ according to the country or region. In Europe, for example, notions of CSR probably developed out of the Church and a sense of ethics. In India, CSR has evolved to encompass employees, customers, stakeholders and notions of sustainable development or corporate citizenship.

In transnational companies, the approach to CSR typically emerges from one of three elements including a decentralised strategy (which might examine human rights), a centralised strategy (which would be company-wide) or a globally integrated strategy (which would include Coca Cola or oil companies - where local actions can impinge globally).
Many large companies enter into CSR through acts of philanthropy, for example, Bill Gates or Warren Buffet. Often, for such companies, the tax advantages are attractive or it may merely be a clever way to retain control of resources. India has been a major beneficiary from the Gates Foundation, particularly in health care. One of the fall-outs from the Enron scandal has been that in India individuals have been reluctant to accept directorships of companies.

From the perspective of the employee, CSR has been hugely important in India. For example, after 1945, TATA implemented social welfare provisions for its employees that have since become the legislative norm. Equally, when companies announce they will reduce the number of employees, the workers can be fearful that the benefits they have accrued will be lost. While India has a large comparative demographic advantage with substantial numbers of graduate engineers, probably only one third are actually employable. There is also concern from employees who wonder what would happen to the welfare ethos if an Indian company took control of a European firm.

From the perspective of the customer, CSR initiatives can relate to issues of product quality. For example, Sony recently recalled, on a global basis, batteries it used in Dell computers. In Japan, allegations that a particular form of packaging promoted cancer equally led to huge product safety concerns. The last 15 years has witnessed substantial developments in the area of consumer rights. The Indian Supreme Court has declared that it would be better to lose thousands of jobs in order to protect the health of millions through cleaner air and a better environment.

From the perspective of stakeholders in the community, the bigger the company the greater the effort should be to protect the employees or the environment. There is some recognition that it would be hard for smaller companies to undertake CSR initiatives at that scale. Communities can pressure companies to provide and improve civic amenities. One scheme, the Provision of Urban Amenities in Rural Areas (PURA) aims to prevent unnecessary urbanisation and help tackle migration from rural areas. Larger companies might also be interested in promoting arts and culture as a service to the community to protect local culture.

Some companies have encouraged skilled employees to teach in the local community. One of the arguments against CSR has been that it lowers company profits, but the IMI has shown that many companies say the benefits outweigh the costs. Another argument has come from some employees who have been hesitant to demand more CSR, seeing a trade-off between CSR spending and better employee welfare provision.

There can be different concepts of CSR between countries or even within a specific business sector. Companies can have a relationship to the local community without necessarily calling it CSR. EIAS, wants to broaden the research focus between the EU and India on CSR in order to help benefit business development.

Case studies examining current practice are important but, CSR should also be part of the management training curriculum. Shareholders will have to be convinced of the value of CSR when management is under pressure to deliver profits. To what extent would the Indian trade union movement be strong enough to protect workers against any aggressive action by companies seeking to divest themselves of their social responsibility to employees? Would unions in India be capable of providing nationwide action at the policy level, as the implementation of legislation is severely lacking in India and the inspection regime system is an embarassment? This failure also lowers public expectations of what can be achieved.

Check Your Progress Exercise 4

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

Q1: What is the history of corporate social responsibility in India?

____

____

____

____

Q2: What are the drivers of CSR in India?

____

____

____

____

Q3: How has CSR impacted labour relations in India?

____

____

____

____

8.11 CRITICISM OF CSR

Critics of CSR, as well as proponents, debate a number of concerns related to it. These include CSR's relationship to the fundamental purpose and nature of business and questionable motives for engaging in CSR, including concerns about insincerity and hypocrisy.

Nature of business

Milton Friedman and others have argued that a corporation's purpose is to maximize returns to its shareholders, and that since only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole. Although they accept that corporations should obey the laws of the countries within which they work, they assert that corporations have no other obligation to society. Some people perceive CSR as incongruent with the very nature and purpose of business, and indeed a hindrance to free trade. Those who assert that CSR is contrasting with capitalism and are in favor of neo-liberalism argue that improvements in health, longevityand/or infant mortality have been created by economic growth attributed to free enterprise.

Critics of this argument perceive neo-liberalism as opposed to the well-being of society and a hindrance to human freedom. They claim that the type of capitalism practiced in many developing countries is a form of economic and cultural imperialism, noting that these countries usually have fewer labour protections, and thus their citizens are at a higher risk of exploitation by multinational corporations.

A wide variety of individuals and organizations operate in between these poles. For example, the REALeadership Alliance asserts that the business of leadership (be it corporate or otherwise) is to change the world for the better. Many religious and cultural traditions hold that the economy exists to serve human beings, so all economic entities have an obligation to society (Economic Justice for All). Moreover, as discussed above, many CSR proponents point out that CSR can significantly improve long-term corporate profitability because it reduces risks and inefficiencies while offering a host of potential benefits such as enhanced brand reputation and employee engagement.

Motives

Some critics believe that CSR programs are undertaken by companies such as British American Tobacco (BAT), the petroleum giant BP (well-known for its high-profile advertising campaigns on environmental aspects of its operations), and McDonald's to distract the public from ethical questions posed by their core operations. They argue that some corporations start CSR programs for the commercial benefit they enjoy through raising their reputation with the public or with government. They suggest that corporations which exist solely to maximize profits are unable to advance the interests of society as a whole.

Another concern is that sometimes companies claim to promote CSR and be committed to sustainable development but simultaneously engage in harmful business practices.

Royal Dutch Shell has a much-publicized CSR policy and was a pioneer in triple bottom line reporting, but this did not prevent the 2004 scandal concerning its misreporting of oil reserves, which seriously damaged its reputation and led to charges of hypocrisy. Since then, the Shell Foundation has become involved in many projects across the world, including a partnership with Marks and Spencer (UK) in three flower and fruit growing communities across Africa.

Critics concerned with corporate hypocrisy and insincerity generally suggest that better governmental and international regulation and enforcement, rather than voluntary measures, are necessary to ensure that companies behave in a socially responsible manner. A major area of necessary international regulation is the reduction of the capacity of corporations to sue states under investor state dispute settlement provisions in trade or investment treaties if otherwise necessary public health or environment protection legislation has impeded corporate investments. Others, such as Patricia Werhane, argue that CSR should be considered more as a corporate moral responsibility, and limit the reach of CSR by focusing more on direct impacts of the organization as viewed through a systems perspective to identify stakeholders.

Check Your Progress Exercise 4

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

Q1: Why is CSR criticised?

____

____

____

____

Q2: Have the CSR initiatives of corporations been suspect?

____

____

____

____

8.12 ETHICAL CONSUMERISM

The rise in popularity of ethical consumerism over the last two decades can be linked to the rise of CSR. As global population increases, so does the pressure on limited natural resources required to meet rising consumer demand (Grace and Cohen 2005, 147). Industrialization, in many developing countries, is booming as a result of both technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are therefore beginning to make purchasing decisions related to their environmental and ethical concerns. However, this practice is far from consistent or universal.

8.13 GLOBALIZATION AND MARKET FORCES

As corporations pursue growth through globalization, they have encountered new challenges that impose limits to their growth and potential profits. Government regulations, tariffs, environmental restrictions and varying standards of what constitutes "labor exploitation" are problems that can cost organizations millions of dollars. Some view ethical issues as simply a costly hindrance, while some companies use CSR methodologies as a strategic tactic to gain public support for their presence in global markets, helping them sustain a competitive advantage by using their social contributions to provide a subconscious level of advertising. Global competition places a particular pressure on multinational corporations to examine not only their own labor practices, but those of their entire supply chain, from a CSR perspective.

8.14 SOCIAL AWARENESS AND EDUCATION

The role among corporate stakeholders is to work collectively to pressure corporations that are changing. Shareholders and investors themselves, through socially responsible investing are exerting pressure on corporations to behave responsibly. Non-governmental organizations are also taking an increasing role, leveraging the power of the media and the Internet to increase their scrutiny and collective activism around corporate behavior. Through education and dialogue, the development of community awareness in holding businesses responsible for their actions is growing. In recent years, the traditional conception of CSR is being challenged by the more community-conscious Creating Shared Value concept (CSV), and several companies are refining their collaboration with stakeholders accordingly.

8.15 ETHICS TRAINING

The rise of ethics training inside corporations, some of it required by government regulation, is another driver credited with changing the behavior and culture of corporations. The aim of such training is to help employees make ethical decisions when the answers are unclear.

Many believe that humans are built with the capacity to cheat and manipulate, hence the need for learning normative values and rules in human behavior. The most direct benefit is reducing the likelihood of "dirty hands", fines and damaged reputations for breaching laws or moral norms. Organizations also see secondary benefit in increasing employee loyalty and pride in the organization.

Increasingly, companies are becoming interested in processes that can add visibility to their CSR policies and activities. One method that is gaining increasing popularity is the use of well-grounded training programs, where CSR is a major issue, and business simulations can play a part in this.

One relevant documentary is *The Corporation*, in which the history of organizations and their growth in power is discussed. Corporate social responsibility, what a company does in trying to benefit society, versus corporate moral responsibility (CMR), what a company should morally do, are both important topics to consider when looking at ethics in CSR. For example, Ray Anderson, in *The Corporation*, takes a CMR perspective in order to do what is moral and he begins to shift his company's focus towards the biosphere by utilizing carpets in sections so that they will sustain for longer periods. If people do not pay attention to the private ways in which we use public resources, people will eventually lose those public resources.

Check Your Progress Exercise 5

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

Q1: What is the connection between CSR and Ethical consumerism?

____

____

____

____

Q2:How has CSR influenced behavior and culture of corporations?

____

____

____

____

8.16 SUMMING UP

In this unit we have seen what is meant by Corporate Social Responsibility and the role it plays in today's corporate world. We have also understood the role of CSR in creating a healthy atmosphere for ethical business practices and also its role as a tool of promotion and public realtions for the corporates.

8.17 GLOSSARY

Social investment: Investing into social action for the betterment of the society and also for raising the profile of the company.

Ethical consumerism: The realisation that our resources are limited and becoming more aware of the environmental and social implications of our day-to-day consumer decisions.

8.18 ANSWER TO CHECK YOUR PROGRESS EXERCISE

Check Your Progress Exercise 1

1. Corporate social responsibility (CSR, also called corporate conscience, corporate citizenship, social performance, or sustainable responsible business) is a form of corporate self-regulation integrated into a business model. CSR policy functions as a built-in, self-regulating mechanism whereby business monitors and ensures its active compliance with the spirit of the law, ethical standards, and international norms. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities,stakeholders and all other members of the public sphere. Furthermore, CSR-focused businesses would proactively promote the public interest (PI) by encouraging community growth and development, and voluntarily eliminating practices that harm the public sphere, regardless of legality. CSR is the deliberate inclusion of PI into corporate decision-making that is the core business of the company or firm, and the honouring of a triple bottom line: people, planet, profit.

2. The key drivers for CSR are:

- ❖ Enlightened self-interest - creating a synergy of ethics, a cohesive society and a sustainable global economy where markets, labour and communities are able to function well together.

- Social investment - contributing to physical infrastructure and social capital is increasingly seen as a necessary part of doing business.
- Transparency and trust - business has low ratings of trust in public perception. There is increasing expectation that companies will be more open, more accountable and be prepared to report publicly on their performance in social and environmental arenas.
- Increased public expectations of business - globally companies are expected to do more than merely provide jobs and contribute to the economy through taxes.

3. The four components of CSR are:

Employees

CSR seeks to assist corporations in treating both domestic and foreign employees equitably by providing safe and comfortable working conditions and a fair wage. This approach continues the ongoing transformation of a corporate mentality that was common in the nineteenth century, in which the rights of employees barely registered among the concerns of company owners.

Customers

Corporations have an obligation to provide safe, effective and good-quality products and services to their customers. A purely free-market analysis of this responsibility would state that these requirements will be met by the dictates of the market. The philosophy of CSR questions the truth of this belief, and advocates more proactive intervention into the relationship between corporations and their customers.

Environment

Environmental aspects of CSR encourage corporations to consider the finite nature of the natural world, and to take much more stringent measures to reduce waste, address polluting or destructive practices and integrate alternative energy systems and innovative waste-reduction programs.

Society

CSR recognizes the interrelated nature of society, and acknowledges that no individual or company can exist totally isolated from the rest of society. Therefore, corporations need to critically analyze what impact their activities have, for good or ill, on surrounding communities, and take steps to maximize the good and minimize the ill.

Check Your Progress Exercise 2

1. CSR may be based within the human resources, business development or public relations departments of an organisation, or may be given a separate unit reporting to

the CEO or in some cases directly to the board. The business case for CSR within a company will likely rest on one or more of these arguments:

Human resources: A CSR programme can be an aid to recruitment and retention, particularly within the competitive graduate student market. CSR can also help improve the perception of a company among its staff, particularly when staff can become involved through payroll giving, fundraising activities or community volunteering**.**

Risk management: Building a genuine culture of 'doing the right thing' within a corporation can build up the work ethic of the staff which will avoid incidents such as corruption scandals or environmental accidents.

Brand differentiation: In crowded marketplaces, companies strive for a unique selling proposition, and CSR can play a role in building customer loyalty based on distinctive ethical values.

License to operate: By taking substantive voluntary steps, Corporations can avoid interference in their business through taxation or regulations.

2. Environmental Responsibility: Businesses are being urged by environmental groups and governments to reduce their carbon footprint, to obtain their materials from sustainable sources and to reduce their pollution.

Human Rights Responsibility: Major companies have received criticism for their use of sweat shops and for sourcing resources that are harvested by unfairly treated workers. This has lead to a push for the use of strict labor standards to be applied to suppliers.

Financial Responsibility: Financial responsibility is an important issue in corporate social responsibility. Employees are expected to act as whistle blowers.

Political Responsibility: People and governments have demanded that businesses stop trading with repressive regimes. This has made doing business with certain governments an important consideration for corporate social responsibility.

Check Your Progress Exercise 3

1. Corporate Social Responsibility (CSR) has been on the agenda in India for a considerable period. Most big Indian corporations are engaged in some CSR activities. As is the case in many countries, the private sector is generally more active in this area than the governmental/public sector.

Several major CSR initiatives have been launched in India since the mid-1990s. Among these is the first voluntary code of corporate governance, "*Desirable Corporate Governance: A Code*", established in April 1998. This was an initiative by the Confederation of Indian Industry (CII), India's largest industry and business association.

2**.** The historical driver of CSR has been philanthropy or a sense of ethics. After the Second World War, a variety of national and international regulations arose through organizations such as the International Labour Organisation (ILO), emphasising the need for an active social policy for transnational companies (TNCs). This additional driver, international institutions, has relevance for India through the work of the ILO, the OECD, Socially Responsible Investment (SRI), the SA8000 Social Accountability scheme and through the work of the UN Commission on Human Rights, which tackled the human rights responsibilities of TNCs.

3. From the perspective of the employee, CSR has been hugely important in India. For example, after 1945, TATA implemented social welfare provisions for its employees that have since become the legislative norm. Equally, when companies announce they will reduce the number of employees, the workers can be fearful that the benefits they have accrued will be lost. While India has a large comparative demographic advantage with substantial numbers of graduate engineers, probably only one third are actually employable. There is also concern from employees who wonder what would happen to the welfare ethos if an Indian company took control of a European firm.

Check Your Progress Exercise 4

1. Milton Friedman and others have argued that a corporation's purpose is to maximize returns to its shareholders, and that since only people can have social responsibilities, corporations are only responsible to their shareholders and not to society as a whole. Although they accept that corporations should obey the laws of the countries within which they work, they assert that corporations have no other obligation to society. Some people perceive CSR as incongruent with the very nature and purpose of business, and indeed a hindrance to free trade. Those who assert that CSR is contrasting with capitalism and are in favor of neo-liberalism argue that improvements in health, longevityand/or infant mortality have been created by economic growth attributed to free enterprise.

2. Some critics believe that CSR programs are undertaken by companies such as British American Tobacco (BAT), the petroleum giant BP (well-known for its high-profile advertising campaigns on environmental aspects of its operations), and McDonald's to distract the public from ethical questions posed by their core operations. They argue that some corporations start CSR programs for the commercial benefit they enjoy through raising their reputation with the public or with government. They suggest that corporations which exist solely to maximize profits are unable to advance the interests of society as a whole.

Royal Dutch Shell has a much-publicized CSR policy and was a pioneer in triple bottom line reporting, but this did not prevent the 2004 scandal concerning its misreporting of oil reserves, which seriously damaged its reputation and led to charges of hypocrisy.

Check Your Progress Exercise 5

1. The rise in popularity of ethical consumerism over the last two decades can be linked to the rise of CSR. As global population increases, so does the pressure on limited natural resources required to meet rising consumer demand. Industrialization, in many developing countries, is booming as a result of both technology and globalization. Consumers are becoming more aware of the environmental and social implications of their day-to-day consumer decisions and are therefore beginning to make purchasing decisions related to their environmental and ethical concerns. However, this practice is far from consistent or universal.

2. The rise of ethics training inside corporations, some of it required by government regulation, is another driver credited with changing the behavior and culture of corporations. The aim of such training is to help employees make ethical decisions when the answers are unclear. Many believe that humans are built with the capacity to cheat and manipulate, hence the need for learning normative values and rules in human behavior. The most direct benefit is reducing the likelihood of "dirty hands", fines and damaged reputations for breaching laws or moral norms. Organizations also see secondary benefit in increasing employee loyalty and pride in the organization.

8.19 REFERENCES

Bansal, P.;Roth, R., "Why Companies Go Green: A model of Ecological Responsiveness", *The Academy of Management Journal* 43, 2000.

Feltus, C.; Petit, M.; Dubois, E, *Strengthening employee's responsibility to enhance governance of IT: COBIT RACI chart case study*, Proceedings of the first ACM workshop on Information security governance (WISG'09), Chicago, Il, USA, 2009.

powerupcapitalreview.blogspot.com

www.asocio.org/policy

Utting, P., "Corporate responsibility and the movement of business" *Development in Practice*, 14(3&4), 2005, Pp: 375–388.

www.**business**inromania.eu/static/en/en-csr/index.html

www.ehow.com › Business

Tebo, P. V., "Building business value through sustainable growth", *Research Technology Management*, 48(5), 2005, Pp: 28–32.

www.superverde.com.br/social_responsibility.php

www.norwayemb.org.in

Griffin, J.; Mahon, J., "The Corporate Social Performance and Corporate Financial Performance Debate", *Business and Society* 36, 1997.

8.20 QUESTIONS FOR REFLECTION AND PRACTICE

1. What is Corporate Social Responsibility and why is it imporant in today's business?
2. What are the different elements that influence CSR and what are the benefits of CSR?
3. Why is CSR criticised by some people?
4. How is CSR related to ethical consumerism?

UNIT 9 TECHNOLOGY FOR FINANCIAL INCLUSION

STRUCTURE

9.1 Introduction

9.2 Objectives

9.3 IT challenges and opportunities for rural development

9.4 Information technology development in India

9.5 Role of reserve bank of india for IT penetration in rural areas

9.6 Focus areas for financial inclusion

9.6.1 Community banking

9.6.2 Business correspondent/facilitator model

9.6.3 Customer education

9.6.4 credit Counselling

9.6.5 Credit off take

9.7 Approach to technology implementation

9.8 Choosing the right technology framework

9.9 recommendations for implementation

9.10 need for standards

9.11 Networking of banks through banking information technology services(BITeS)

9.12 Recommendations of the rangarajan committee

9.13 Technological requirements

9.13.1 Centralized hub

9.13.2 All purpose single card

9.13.3 Online and offline model

9.14 Summing Up

9.15 Glossary

9.16 Answers to check your progress exercises

9.17 References

9.18 Questions for reflection and practice

9.1 INTRODUCTION

Information Technology (IT) is today becoming as important as'roti', kapda, aur makan' (bread, cloth and house). In 40's, people used to believe in secrecy of information. But in this new millennium, the concept is totally reversed. Now we like to share the information. Information is thus emerging as more and more power. Experts of this field confidently predict that our poverty line will no longer be measured in the terms of money, but in terms of information

9.2 OBJECTIVES

After studying this Unit, you would be able to

- Discuss the information technology and its uses in banking and government sectors;
- Explain the information technology revolution in India; and
- Examine the different issues in implementing information technology for financial inclusion.

9.2 IT CHALLENGES AND OPPORTUNITIES FOR RURAL DEVELOPMENT

India, a union of states, is the second most populous nation in the Asian region behind China. The country has achieved impressive progress in the field of science and technology and is emerging as one of the strongest economies in the developing world. Information and communication technologies have brought significant changes in development of the Indian society through information dissemination. No other technology is as profound as information technology (IT) in human history. IT has had a great influence on the economy and lives of people across the world. In India the benefits of IT are beginning to be seen and the impacts of these benefits are creating great change. It is also true that the use of digital technologies in the world has not only improved people's day–to–day life but it has also divided the world into information rich and information poor, *i.e.* the information haves and have–nots. The unequal access to information and communication technologies has led to a massive divide digitally. Although India has been one of the emerging super powers in IT, the benefits have been remarkably slow, particularly in rural and remote areas. Besides socio–economic factors, geographic, educational and attitudinal factors have been some of the challenges for the government when introducing IT–oriented programmes.

Technological change is the major contributor to the growth and development of the information society; e–learning, e–libraries, e–health, e–governance, etc. have become pillars of the information society. Realising these developments, a world summit was organised by the United Nations in 2003 in Geneva. The goal of the summit was to develop a common vision and understanding of the information society and to draw up a strategic plan of action for concerted development towards realising this vision. Access to information in society is not uniform and globally there has always been a gap between those people and communities who can make effective use of IT and those who cannot, leading to a kind of digital divide which is the major concern for the governments of developing countries.

9.4 INFORMATION TECHNOLOGY DEVELOPMENT IN INDIA

In India the use of IT and computerisation began in 1978. The national government increased the pace of IT use at the district level in 1985. The National Information Centre (NIC), a central government organisation, was chosen to implement a national programme called "DISNIC," Information System of NIC, to computerise all district offices. Commissioning nearly 500 computer centres to a country–wide network, and connecting these computers, was a major achievement. With the rapid progress of the IT industry, there have been in some places in India remarkable social changes. Earlier, people were reluctant to plunge into information and communication technology and thought IT would take away people's jobs. But today a complete change in people's mindset is apparent. Many state governments are giving a boost to the IT sector by developing cyber cities. Ex. Andhra Pradesh in Hyderabad, Maharashtra in Pune, Karnataka in Bangalore, Tamil Nadu in Chennai and Kerala in Cochin etc.

There are many successful information and communication technology (ICT) initiatives in India oriented towards rural development.

Box 1

Rural eSeva Kiosks

The Rural e-Seva project in West Godavari came out of the experience of the Urban e-Seva project in the twin cities of Hyderabad and Secunderabad. While a typical Urban e-Seva centre is a bill collection centre, the Rural eSeva, is the delivery of a broader set of services was meant to be the central element, as many of these services do not have a direct revenue model. The centres were thus established to balance the concern of financial sustainability with the requirement of providing an array of development services to all sections of society, including disadvantaged sections. The aim of the project was to provide different government department services at a single point and place, with the understanding that a considerable number of these centres would be run by women or youth SHG members.

The idea was to roll out a project within a short time frame – two-three months from the initial conceptualisation of the initiative – and tap into existing resources within the system and in the community that would allow for the rapid roll-out. Thus, the DRDA and the SC Corporation were co-opted and placed in charge of selecting on of entrepreneurs under their existing schemes.

Choosing these nodal development agencies had a positive impact in terms of selecting qualified entrepreneurs from disadvantaged backgrounds, who might otherwise have not been chosen to take lead in this innovation. Furthermore, in order to prevent conflict emerging from the power shifts caused by this new innovation and to build stakeholders amongst the power elite, the Collector "*got MLAs, MPs and Panchayat representatives to inaugurate centres*." By placing the onus of the centres' advancement and monitoring in their hands, he was able to secure their cooperation. Yet, despite the authority of the Collector within the district, there was significant resistance to the initiative on the part of government departments and *Mandal* Revenue Departments, who were now expected to provide their services through the eSeva Kendras, or kiosks, run by community people – this change clearly meant a loss in the power exercised by government officials over local citizens and it also made corruption more difficult. From the very beginning, women's empowerment was part of the larger goal of this initiative, and "*realising that the SHG movement was important*," technical and entrepreneurial training was provided to them so that they would take the initiative forward and make it sustainable.

The Rural eSeva centre is run by an entrepreneur or a group of entrepreneurs from SHGs. The entrepreneurs do not receive any subsidies, but are linked to commercial loans to be able to initiate the project and purchase the necessary equipment and infrastructure. They receive computer-related training and guidance in management of the centre in the initial period for 6 months, followed by periodic meetings to get inputs on new services and discuss issues and problems.

The selection of the entrepreneurs as noted above was left to certain departments, and those men and women who expressed an interest in the programme were short-listed and then selected. Guidance and encouragement had to be provided in the initial stages to the entrepreneurs, many of whom had no previous business or technical experience One eSeva centre has been set up at every *Mandal*, or 46 centres in total, of which 14 have women as kiosk owners. The eSeva centres are equipped with computers, one or more printers and other peripherals like scanners, lamination machines, web cameras, etc., and all centres have hand-held devices for reading electricity meters and issuing bills. The kiosks are conceived as the front-end reception offices of the *Mandal* Revenue Offices, and the main services provided are in the form of utility bill payments and provision of certificates such as Birth Certificates, Caste Certificates, and so on. For each transaction, the entrepreneur is assured of a certain commission by the utility company. In the recent past, a revenue sharing agreement between the district administration and the entrepreneur has been developed, where a small portion of the earnings from each bill payment goes back to the district administration to cover connectivity and other costs. In some centres, entrepreneurs have the responsibility of reading electricity meters and issuing bills, for which they receive small amount per transaction and in all centres, information on district-level schemes, application forms for schemes, and results of district examinations are made available. E-literacy training courses for children, and of late, ICT-enabled literacy courses for SHG women have been initiated at the centres. Data entry for surveys undertaken at the *Mandal* level, for example, household surveys on Below Poverty Line households, is carried out by eSeva operators.

There has been a further expansion in the project with 18 sub-centres run as Rural Service Delivery Points (RSDP) at the village level, all managed by women operators. As the main focus of these centres is on affordable computer education for children (in additional to utility payment collections), not all of them have been successful, where success is defined along financial sustainability terms. Efforts are ongoing to see how these "sick" centres can be sustained on a long-term basis in light of the fact that demand is much lower at the village level than at the *Mandal* level, and thus, alternate means of sustenance have to be conceived.

The entire project is being administered by the Collector's office, in conjunction with NIC, which not only provides technical support but also liaisons with the different departments at the level of the government, and with entrepreneurs at the local level, to develop suitable applications. The representatives of the NIC feel that they are in the best position to perform this role as they have the "*domain knowledge of the district administration in addition to the required technical skills*."

Furthermore, they visit the centres frequently and interact with the kiosk operators at meetings to provide the necessary troubleshooting and problem-solving assistance.

From the angle of financial sustainability, most centres at the *Mandal* level are functioning well and entrepreneurs have employed additional people to help with their operations.

In two of the women-run centres at Denduluru and Nidadavolu, the entrepreneurs, Ms. Nagashiromani and Ms. Venkatalakshmi, employ 4 and 1 additional people respectively, and earn a monthly income of between Rs.5000 and 8000, after paying off salaries and other recurring costs. In addition to the regular line of services, they sell non-ICT based goods and services (such as spices, groceries or show-case items) to augment their income. Aside from the financial success, there has been a change in the status of the entrepreneurs, who have moved from undertaking odd marketing jobs or working as agricultural labourers to becoming kiosk owners. Both women felt that when they were chosen initially, there was much skepticism in the community relating to their capacities to perform as IT kiosk operators and some gossip as the training called for frequent trips to the Collector's office for the 6 month period. However, once the kiosks were opened, these women, through hard work and dedicated service, were able to ensure that the kiosk functions in an effective manner. They strongly believe that they now command a position of visibility and respect in the community, especially in the *Panchayat*, which would not have been possible through their traditional roles and occupations. This is echoed by Mr. Jaju, who concludes that while there is a long period of struggle on both ends initially, once women entrepreneurs reach a certain point and establish themselves, there is no looking back

The positive spillovers of engaging women entrepreneurs is also reflected in the fact that 30-40 percent of the citizens who came to register online complaints through the grievance redressal mechanism were women, and these were complaints against non-delivery of services by the *Panchayat* representatives and officials in positions of power. Nagashiromani says, "*Had the centre been run by a man, women would not have come forward. It is because the centre is run by a woman that they feel comfortable*". This view is recognised by district officials as well. Assessing the Project from a Gender Lens

Gender as a practical solution or a strategic agenda

This project attempts to provide an end-to-end IT solution and through improved efficiency and transparency in the government sector, benefit all sections of the community. Interestingly, integrating women into the project was found to be a useful strategy to ensure successful outcomes, as it was felt that women operators are more likely to stay in the position for a longer period of time and are more dedicated to serving the community. There was also a reference to the fact that the project hinged on the successful emergence of the SHG movement in the West Godavari District in Andhra Pradesh and the social capital built on by the movement. Yet, despite the lack of attention given to gendered nature of power relations in the community, the project was able to develop and establish new role models for women entrepreneurs, and through its range of services, provide some new opportunities for women in the community. For example, it was mentioned that more women come forward to pay monthly bills and apply for certificates after eSeva centres have emerged as these were more accessible and convenient. These tasks were earlier seen as part of the 'male' domain because they called for standing in long queues, travelling to different offices and interacting with the power elite.

Project implementation trade-offs

Where IT projects attempt to bring about governance reform and challenge the power held traditionally by elites at official and community levels, projects have to confront trade-offs in defining parameters of success in their design and implementation. This was evident in eSeva, where the choices of creating stakeholder interest and bringing in maximum buy-in from different departments and officials by allowing *them* to choose the 'beneficiaries' under their different schemes, meant that certain other agenda – ensuring greater ownership of centres by SHG women and those from disadvantaged caste groups; securing the cooperation and involvement of local *Panchayats*; and setting up processes for wider community participation – all had to take a back seat. Also, the need to get the project running in an extremely short span of time so as to prove the possibilities of IT in a large-scale project meant that other processes dealing with the information and communication context, and power relations embedded within this context at the community level, had to be hastened or sidelined.

Business models may come in the way of development goals

The twin goals of the project were to provide the most cost effective technology solutions and ensure that the service delivery person makes a decent income through the kiosk operations. In this regard, the project was found to be sustainable as new applications and new uses of existing devices and processes are still being evolved by the eSeva implementation team. Yet, in the extension centres at the village level (RSDP centres), the inability of the centres to generate sufficient income to offset monthly expenses, due to the lack of a demand pool at the village level, led to them being considered as "sick centres" in need of alternate strategies and services. While financial sustainability is important, making this a concern that overrides other development goals is problematic, particularly when there may be several intangible ways in which women entrepreneurs are benefiting through their new roles, statuses and opportunities and women users in the community are benefiting from the newly available information and services. Conceiving of sustainability in a narrow manner also crowds out the possibility for appropriation of technology by community members, whose needs may be completely sidelined in light of the urgency of financial viability – thus, goals of reach, inclusion and service delivery may be negatively impacted in the process.

(Adopted from Locating Gender in ICTD Projects: Five Cases from India
A research study undertaken by: IT for Change, *Commissioned by:* National Institute for Smart Government, MAY 2008)

The above case study demonstrates that the IT initiatives will address gender concerns and it also paves the way for empowerment of women. IT has now received due attention of policy makers, implementers for success of e-government projects through National e-governance plan (NeGP). The objective of NeGP is to provide a portfolio of services to the citizens through common services centres (CSC) integrated with e-government backbone to not only set up a good e-governance system but also to establish a support structure for sustainable livelihood opportunities. In order to support the rural households, the Government of India set up 100,000 common service centres (CSC) for 600,000 by September 2008. The financial outlay is around Rs. 23,000 Crores. These centres are expected to provide 80 common services with active support from district, state and central administration as well as business sector. The CSCs are meant for optimising transaction cost and time. It is also envisaged that these CSCs will support on-line transactions for government services. This is primarily aimed to reduce the distance that a villager normally travels to transact. A villager usually would prefer a better transaction cycle to happen in the village itself to support their livelihood prospects.

These CSCs are conceptualized on supply-driven model and are expected to provide predetermined services. At the same time, the grassroots initiatives not only supply driven, it actually encourages community especially women to participate in projects.

9.5 ROLE OF RESERVE BANK OF INDIA FOR IT PENETRATION IN RURAL AREAS

Reserve Bank of India plays a pivotal role as far as urban and rural area growth is concerned. RBI too, has provided so many tools as part of improving systemic efficiency of the banking and financial sectors. The first major step has been the setting up of an exclusive, safe and secure communication network for the use of the banking sector - the INFINET (for the Indian Financial Network). This network has been in operation for more than 3 years now. The Institute for development and Research in Banking Technology (IDRBT), at Hyderabad can take a lead of hosting this network at rural and urban segments too.

Reserve Bank has also provided many new products – all of which are aimed at reforms in the existing payment and settlement systems and providing for risk reduction. Commencing from the introduction of MICR-based cheque clearing in the late eighties (with four metropolitan centres being part of the chain), today, there are 27 cities where cheque clearing is performed using mechanised technology of “Reader Sorters” which process cheques at more than 2,000 per minute. On similar lines, the Currency Verification and Processing Systems have been made operational at various offices of the Reserve Bank which has resulted in the implementation of the 'Clean Note Policy', as far as currency notes are concerned

The benefits of technology in the banking sector have been extended to cover transactions undertaken in respect of government securities transactions. The Negotiated Dealing System (NDS) has provided for an electronic platform for trading in government securities which has stabilised well in its two years of operation. Further, the proliferation of IT has also set the stage for improving and managing risks in payment systems in the form of the following:

- Electronic Trading Systems; Delivery versus Payment (DVP)/ Payment versus Payment (PVP); Real Time Gross Settlement (RTGS); Secured Netting Systems; and the growth of the Central Counterparty (CCP) as in the case of the Clearing Corporation of India Ltd (CCIL) and movement to Continuous Linked Settlement.

Indian Banking and HI- tech Banking Technology Services

The nature of hi-tech IT Services in the banking Industry have been addressed as under:

- Shared Payment Network System (SPNs) (SWADHAN) of Indian Banks' Association;
- Automated Clearing House Operations;
- A network of Regional Data warehouses – Credit Information Bureau;
- Electronic Funds Transfer (EFT);
- Electronic Clearing Service (ECS) – Credit Clearing and Debit Clearing;
- RBnet;
- Computerised Message Transfer (COMET);
- Very Small Aperture Terminal (VSAT) for BANKNET;
- Regional Grid Clearing – Collection of Outstation Cheques;
- Magazine on 'Banking Information Technology (BANKIT);
- Credit/Debit Cards and Electronic Funds Transfer (Point-of-Sale Terminal);
- Smart Cards;
- Communication through use of Optical Fibre Technology;
- INET (Packet Switched Public Data Network);
- HVNET (High Speed VSAT Network);
- NICNET (District based Information System);
- Internet Banking;
- Chat Relay (ICR) System;
- Electronic Mail (e-mail);
- Facsimile (FAX);
- Society for Worldwide Inter-bank Financial Telecommunication (SWIFT);
- Virtual/Digital/e-Sign Signatures in banking;
- Cheque Truncation process; and
- Smartquill' Computer pen.

Check Your Progress Exercise 1

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. What is the role of Information Technology in rural development?

2. What are the Initiatives taken by RBI as technology innovation?

9.6 FOCUS AREAS FOR FINANCIAL INCLUSION

We have seen the Information Technology and its usage in banking sector in India in the previous section. In this section, we can see the focus areas for financial inclusion in banking sector.

9.6.1 Community Banking

A community bank draws upon the knowledge and expertise in the community and uses this insight to provide customized and differentiated lending and banking solutions. Community banks focus attention on the needs of local families, businesses, and farmers. Conversely, whereas many of the nation's big banks are structured to place a priority on serving only the large corporations. The following sectors, the community banking is in operational in India.

Rural banking in India started since the establishment of Banking sector in India. Rural Banks mainly focussed upon agro sector and there are 14,475 rural banks in the country out of which 91% are located in remote rural areas.

9.6.2 Business Correspondent/ Facilitator Model

The Business Correspondent model allows non-financial service providers to provide financial services (savings accounts, money transfer etc.) on a small scale basis (maximum limits imposed). The money is still held at a financial institution, however is serviced by the BC. The Business Correspondent (BC) model coupled with “Branch-Free Banking” can become a major enabler of financial inclusion in India and enable “Universal Financial Access” just as the telecom revolution in India has made “universal mobile access” close to becoming a reality.

9.6.3 Customer Education

Persons in unbanked remote villages are situated in the far flung areas still depend on local moneylenders and are denied of the affordable banking services. The role of BC/BF in the present model is an important one. They are not only the first point of contact with the customers but they are required to educate the customer also about the benefits of having an account with the bank. The strength of public domain like strong banks with the reach of the private agencies to the far flung areas. Some of the agencies can be out of NGOs, Farmers Clubs, SHG, Co-operatives, Community Based Organizations; IT enabled rural outlets of corporate entities. The role of Bank's Farmer Training Colleges and Information Kiosks will be in addition to the BC and BF Model for Financial Inclusion.

9.6.4Credit Counselling

Credit counselling is important for ensuring success of farmers in the remote areas. They must be informed the credit facilities available in the bank to meet out their various needs crop loan, loan for farm mechanization as well as personal loans to meet out petty needs. The BC/ BF can play an important role in spreading the credit schemes and by providing them credit counselling to choose from the various options available to them.

9.6.5Credit Off Take

Specific to credit off take, there exists a multitude of cards like Kisan Cards, Debit Cards, Credit cards–some usable online, while some used more as token of identity. There is a felt need that with the advancement of technology, a person in a remote area should be able to access his accounts/avail his credit limits with the use of only one card which should also double up as his multi-purpose bio-metric enabled identity card. Various options are available for meeting the above objectives.

Check Your Progress Exercise 2

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. What is Rural Banking?

___

___

___

2. Elaborate on Business Correspondent Model.

___

___

___

9.7 APPROACH TO TECHNOLOGY IMPLEMENTATION

Technology implementation should be such that it focuses on reducing cost of achieving financial inclusion and enhance productivity and efficiency levels of the system.

Further, technology tends to have the maximum impact when a key theme for leveraging technology is identified, and then all the decisions that follow rally round this central thought process. For instance, the kind of technology decisions taken by a financial inclusion intervention focused on reducing its transaction costs will be very different from another financial inclusion intervention that wants to be more productive in its outreach and delinquency management efforts. While the former may focus on basic automation of back-office processes, the latter will be better off in introducing field technologies and a more robust platform that helps in growing its scale of operations, and more objective and analytically driven credit decisions.

For example, kiosks now – and more increasingly in the future – will have to become the access points of more and more services in a manner that can differentiate them better against competing technologies, for such interventions to be financially and practically viable. Therefore, to derive maximum benefit out of any financial inclusion intervention that relies on technology, it should focus beyond just automation and digitization for its sake, to building capabilities, providing network externalities and leading to substantial improvements in the core capabilities – in manners that are difficult to realize otherwise.

9.8 CHOOSING THE RIGHT TECHNOLOGY FRAMEWORK

A variety of technologies are available in the market today, which can potentially play a meaningful role in financial inclusion initiatives. From smart-cards to mobile phones, a lot of technologies have also been explored and discussed on various forums in recent times.

While each one of these alternatives has its own merits and de-merits, what needs to be explored in any significant measure is to look at building platforms using some or all of these technologies working for the community to bring inclusive finance. One has to leverages the advantages of each of these technologies in a pragmatic way. Also, the focus will then have to shift from evaluating a particular technology per say, to the problem that it seeks to solve at a broader level. Just to take forward the above point with a specific example, true advantage of smart card is its ability to store information in an offline mode. Further, lower marginal cost of provisioning multiple services interactively also differentiates smart card interventions, as it may be difficult to achieve the same by any other delivery interface. However, in cases where network accessibility is not a problem – and it is increasingly becoming less of an issue in semi–urban and rural villages – or in interventions where medium term objectives do not envisage providing multiple services through the same delivery channel, high cost of smart cards may be economically unjustifiable? Further, even otherwise, instead of trying to adapt smart cards so that they are able to carry out every type of transaction, it may be a more prudent approach to also look at alternatives (like digital pens, for instance) that will help in more economically carrying out transactions that are not interactive in nature. Similarly, while the mobile phone is a good delivery channel because of network externalities, it needs to evolve beyond just registering a presence as a voice-enabled channel that has limited ability in carrying through a financial transaction.

As should be obvious then, one size doesn't necessarily fit all! Therefore, if financial inclusion intermediations truly seek to leverage technology for transformational impacts, they should focus on 2 key aspects while taking decisions pertaining to it:

- Build technology-enabled interfaces that go beyond enabling transactions
- Use technology to capture information that goes beyond meeting reporting requirements.

What this implies is that it will be prudent to explore aspects of technology enablement beyond delivery channels, so as to also build core-backend that facilitates capturing of more insightful & rich customer information, enhancing business performance and realizing productivity gains.

Check Your Progress Exercise 3

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Elaborate on Importance of Choosing the Right Technology Framework?

____

____

____

9.9 RECOMMENDATIONS FOR IMPLEMENTATION

Different Technological requirements of the banks should be compiled and implementation to be kept as per time frame. Since different banks use different framework of technology, compilation and implementation is a challenge.

Some recommendations for implementations to improve the current system are:

1. Financial inclusion needs to be standardized throughout all the banks and hence the KYC forms needs to be same across all the banks collecting the same level of information.
2. Smart cards should have option to be used across in any location, so the standardization on that also is a basic requirement.
3. A centralized hub for ATM which can link all the ATM lines across all Banks.
4. Bank wise allocation to specific areas would help in Service Area Approach.
5. Sufficient training to the Business Correspondents (BCs) on products and Processes which will aid in Customer Education.

9.10 NEED FOR STANDARDS

To summarize the above discussed points, standardization is required in the following areas:

- Appointment of BC (Qualification and Training)
- Terms and Conditions of agreement between Bank and BC
- Data storage of the Customers across all Banks
- Centralized hub for ATM switches
- Agents SOP (Standard Operating Procedure) for Banking transactions
- Process for Secured data transaction

9.11 NETWORKING OF BANKS THROUGH BANKING INFORMATION TECHNOLOGY SERVICES (BITeS)

Information Technology (IT) continues to be the single largest facilitating force behind the successful transformation of transactions and analytical processing of banking business in the country. Developments which have taken place during the last few years all have IT as the pivotal centre-point.

The introduction of Core Banking has resulted - as a natural offshoot - in the computerisation and networking of branches of banks in a larger scale. Networking of banks is of utmost importance as the information flow should be available throughout to ensure seamless transactions. And this is possible by unified Information Technology across banks.

For becoming the BITeS to be successful, all bankers should come together and plan out the strategy on the lines of UNITeS, so as to build their own team of Net Volunteers ONLINE, which will go a long way in building the image of the Indian banking system across the globe. Online Volunteers on the banking front will be part of the BITeS community as well, often working directly with their onsite counterpart volunteers.

Specific requirements to become a volunteer under the BITeS programme depend on the nature of each assignment, but will always include:

Experience with computers and the internet at an average user level, plus technical requirements for each particular assignment, which could involve thematic experience, higher level ICT skills or language abilities; and a sense of solidarity and service, plus commitment to share knowledge and expertise with others (the volunteering "ethos" or spirit).

BITeS should be supported by an open and growing network of collaborating organisations, from governments, non-governmental organsiations (NGOs), private sector, academia, development and volunteer-sending agencies. Some BITeS partners may have expertise in the use of ICT to find practical solutions to developmental problems. Others should have expertise in managing volunteers, like volunteer sending agencies (VSAs) or NGOs that operate mainly through volunteers. Over time, a coalition of partner-organisations may formally be established around BITeS. The Banking-based Information Technology Programme (BITP) should function as the volunteer arm of the banking fraternity, in coordinating this innovative volunteer initiative to help bridge the digital divide.

Bankers should realize the importance of benefits accruing from the opportunities emerging from the digital revolution. Creation of a global volunteer programme should be aimed at bridging the digital divide between industrialisation and the banking system. BITeS will be an initiative that will channel the creative energies, skills and solidarity of volunteers around the world to collaborate with people to improve their capacity to make practical use of informat ion and communicat ions technologies (ICT) and, thus, help rural/urban banking growth. In key fields like NPA, deposit mobilisation, priority sector lending, exports, foreign exchange, treasury management, volunteers working under the BITeS programme will be able to bridge the digital divide.

9.12 RECOMMENDATIONS OF THE RANGARAJAN COMMITEE

Further, the above implementation should be done while accommodating the various recommendations of the Rangarajan Committee, such as:

1. Rural Banks with computerized system where the information flow is effortless.
2. Improve the network of banks such that every unbanked area is covered.
3. Technology and process to go hand in hand.
4. Balancing the Operation cost by bringing in volumes of transaction.
5. Focus on reducing the cost of infrastructure and ensuring sync of various operations across the banks.
6. Expansion of the Business Correspondents.
7. Seek Government sponsorship and support for making payments under National Rural Employment Guarantee Scheme (NREGS) and Social Security Payments through Technology based solutions.
8. Create a national data-base, sectoral, geographic and demographic reports, and also a payment system benefiting the cardholders from the underprivileged/unbanked population.
9. Close network of operations between Technology Providers and Bankers.

9.13 TECHNOLOGICAL REQUIREMENTS

9.13.1 Centralized Hub

It is critical that the Technology of the remote Banking is centralized in one hub. This helps in integration of all information across the nation. This hub would have the record of all transactions and data regarding all customers.

The centralization would help in:

- Unified data entry and maintenance.
- Ease of process and access to information.
- Cost effective when compared with each centre maintains the information individually.

This also benefits the customers as:

- They will have banking access in unbanked areas also
- No physical visit to banks required
- Enables Microfinance disbursement

- Door step service through SGH
- Payments done for all services in their premised rather than having to go to bank

Banks Benefit by:

- Saving on Operational cost on setting up the above services at every rural locality
- Reaches to the end customer and hence customer satisfaction
- Increases the reach of Financial Inclusion of the Bank
- Customer loyalty
- Reach of Technology to common man and hence covers Corporate Social Responsibility of the Bank

9.13.2 All- Purpose Single Card

Presently, various types of cards are floated by various Banks. Debit Cards, Credit Cards, Kisan Credit Cards, Swarojgar Credit Card, Artisan Credit Card, Bhumiheen Kisan Card, Kisan Samadhan Card, Laghu Udyami Trade Card, etc. are some of the cards issued by various Banks. There is a felt need to replace these individual purpose specific cards to a single card containing all the possible features.

9.13.3 Online and Offline Model

Based on the topography & availability of infrastructure, two models are identified for meeting the requirements of the Bank and the customers. They are the Online and the Offline Model. Online and offline refers to the connectivity through the Internet.

So Technology in terms of GPRS, CDMA, GSM, WIMAX etc, are termed as online mode. So the banking transactions may be through the above mentioned online mode which enables phone banking, internet banking, mobile banking by using username and password for transactions. In areas where the above Technology cannot be used, then use of Unified cards is possible where in recognition is through the finger prints. Depending on the topography and education level of the customers either of the above can be used for any kind of transactions of bank like cash withdrawal, fund transfer and the transaction receipt has to available to the customers then and there, which there by motivates and increases the amount of transactions.

Areas where internet is far from reach can be catered through the Offline Model. Here the transactions would be done through the Smart Card through Business Correspondents. The BCs will be equipped with a terminal which have access to information and also updates the present transaction of the Customer. There are possibilities of higher levels of Process gaps in these transactions as there are many middle men who come in between the customer and the bank. Hence the legality as well as the authenticity and the sync of information across all geographic locations is of utmost importance and also needs continuous monitoring on the efficiency of the system.

Check Your Progress Exercise 4

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. What are the areas for need for Standard?

____

____

____

2. Name a few highlights of the Rangarajan Committee.

____

____

____

3. Elaborate on Online and Offline mode.

____

____

____

4. What are the cards that are available based on Financial Inclusion?

____

____

____

9.14 SUMMING UP

Banks have a major role in extending banking facilities to rural areas for inclusive growth and availability of financial facilities to all across the country. From policy –makers focused on development to Bankers & FIs willing to reach out to all, to vendors providing technology-enabled financial inclusion platforms, everyone needs to understand that while doing social-good is a respectable motivation, philanthropy on its own may not always be able to ensure sustainability. Philanthro-capitalism – or the marriage of philanthropic considerations with capitalistic approach is therefore the order of the day. This gives way for value for human with economics in place. In this Unit, we have seen the Reserve Bank of India initiatives with regard to inclusive finance and the government initiatives to bring all services to the door steps of all with the help of case study.

9.15GLOSSARY

Kisan Credit Card: It is a credit card to provide affordable credit for farmers in India. It was started by the Government of India, Reserve Bank of India (RBI), and National Bank for Agricultural and Rural Development (NABARD) in 1998-99 to help farmers access timely and adequate credit. The Kisan Credit Card allows farmers to have cash credit facilities without going through time-consuming bank credit screening processes repeatedly. Repayment can be rescheduled if there is a bad crop season, and extensions are offered for up to four years. The card is valid for three years and subject to annual renewals. Withdrawals are made using slips, cards, and a passbook.

9.16ANSWERS TO CHECK YOUR PROGRESS

Check Your Progress Exercise 1

1. IT has had a great influence on the economy and lives of people across the world. In India the benefits of IT are beginning to be seen and the impacts of these benefits are creating great change. It is also true that the use of digital technologies in the world has not only improved people's day–to–day life but it has also divided the world into information rich and information poor, *i.e.* the information haves and have–nots. The unequal access to information and communication technologies has led to a massive divide digitally. Although India has been one of the emerging super powers in IT, the benefits have been remarkably slow, particularly in rural and remote areas. Besides socio–economic factors, geographic, educational and attitudinal factors have been some of the challenges for the government when introducing IT–oriented programs.
2. Elaborate on Role of Reserve Bank of India for IT Penetration in Rural Areas

Check Your Progress Exercise 2

1. Rural banking in India started since the establishment of Banking sector in India. Rural Banks mainly focussed upon agro sector. In Rural Banking in India, there are 14,475 rural banks in the country out of which 91% are located in remote rural areas.
2. The Business Correspondent model allows non-financial service providers to provide financial services (savings accounts, money transfer etc.) on a small scale basis (maximum limits imposed). The money is still held at a financial institution, however is serviced by the BC. The Business Correspondent (BC) model coupled with "Branch-Free Banking" can become a major enabler of financial inclusion in India and enable "Universal Financial Access" just as the telecom revolution in India has made "universal mobile access" close to becoming a reality.

Check Your Progress Exercise 3

1. A variety of technologies are available in the market today, which can potentially play a meaningful role in financial inclusion initiatives. From smart-cards to mobile phones, a lot of Technologies have also been explored and discussed on various forums in recent times. While each one of these alternatives has its own merits and de-merits, what needs to be explored in any significant measure is to look at building platforms using some or all of these technologies working in tandem, such that such a solution best leverages the advantages of each of these technologies in a pragmatic way. Further, appropriateness of using a particular technology in a given context will become more obvious if such an approach to decision–making is adopted.

Check Your Progress Exercise 4

1. Standardization is required in the following areas:
   - Appointment of BC (Qualification and Training)
   - Terms and Conditions of agreement between Bank and BC
   - Data storage of the Customers across all Banks
   - Centralized hub for ATM switches
   - Agents SOP (Standard Operating Procedure) for Banking transactions
   - Process for Secured data transaction
2. Recommendations of the Rangarajan Committee, such as:
   a. Rural Banks with computerized system where the information flow is effortless.
   b. Improve the network of banks such that every unbanked area is covered.
   c. Technology and process to go hand in hand.
   d. Balancing the Operation cost by bringing in volumes of transaction.

e. Focus on reducing the cost of infrastructure and ensuring sync of various operations across the banks.

f. Expansion of the Business Correspondents.

g. Seek Government sponsorship and support for making payments under National Rural Employment Guarantee Scheme (NREGS) and Social Security Payments through Technology based solutions.

h. Create a national data-base, sectoral, geographic and demographic reports, and also a payment system benefiting the cardholders from the underprivileged/unbanked population.

i. Close network of operations between Technology Providers and Bankers.

3. Online and offline refers to the connectivity through the Internet. So Technology in terms of GPRS, CDMA, GSM, WIMAX etc, are termed as online mode. So the banking transactions may be through the above mentioned online mode which enables phone banking, internet banking, mobile banking by using username and password for transactions. Areas where internet is far from reach can be catered through the Offline Model. Here the transactions would be done through the Smart Card through Business Correspondents. The BCs will be equipped with a terminal which have access to information and also updates the present transaction of the Customer.

4. Presently, various types of cards are floated by various Banks. Debit Cards, Credit Cards, Kisan Credit Cards, Swarojgar Credit Card, Artisan Credit Card, Bhumiheen Kisan Card, Kisan Samadhan Card, Laghu Udyami Trade Card, etc. are some of the cards issued by various Banks. There is a felt need to replace these individual purpose specific cards to a single card containing all the possible features.

9.17 REFERENCES

Mala,Mary **Technology for Inclusion meeting special needs of all students**, Pearson, 2002. .

Sohani Ak **Financial Inclusion- Perspectives and Country Experiences, Hyderabad: ICFAI.**

Joan S Ryan **Personal Financial Literacy** Thompson South Western, 2007

Sameer Kochhar, C. Rangarajan and K. C. Chakrabarty **Speeding Financial Inclusion,** New Delhi: Academic Foundation, 2010

"World Summit on the Information Society," at: http://www.itu.int/wsis

Dutta, Subrat. (2003) "Impact of Information Communication Technology on Society." *Yojna*. 47, no. 7: 24.

Mahajan, Subrat. (2003) "Impact of Digital Divide on Developing Countries with Special Reference to India." *SERALS Journal of Information Management*. 40, no. 4: 328–329.

Dutta, Subrat. (2003) "Impact of Information Communication Technology on Society." *Yojna*. 47, no. 7: 31.

Gosh, Shyamal. (2004) "Indian Telecom Scenario." *Yojna*. 48, no. 1: 20.

Rao, Radha Krishna. (2003) "E–Governance Gaining in Popularity." *Kurukhetra*. 9: 12.

Handoo, Jatinder, Financial Inclusion in India: Integration of Technology, Policy and Market at Bottom of the Pyramid (June 22, 2010). Available at SSRN: http://ssrn.com/abstract=1628564

Chatain, Pierre Laurent, and others. 2008. "Integrity in Mobile Phone Financial Services." *Working Paper 146,* Washington: World Bank.

9.18 QUESTIONS FOR REFLECTION AND PRACTICE

1. Discuss the role of government of central bank for the inclusive finance.

UNIT 10 STATE AGENCIES AS REGULATORS

STRUCTURE

10.1 Introduction

10.2 Objectives

10.3 Background for MFI Regulation

10.4 Categories of MFIs

10.5 Recent initiative sin the field of micro finance regulation

10.5.1 The NABARD task force

10.5.2 Other working groups on regulatory issues

10.6 Recent Regulatory amendments for micro finance

10.6.1 Mainstreaming of SHG bank Linkage

10.6.2 Amend existing legislation for MFIs

10.7 Issues with micro finance NGOs, SEC 25 companies, NBFCs

10.7.1 Issues with Microfinance NGOs

10.7.2 Issues with section 25 companies

10.7.3 Issues with NBFCs

10.8 Way Forward- A new special law for micro finance

10.9 A look at relevant international experience for regulation

10.10 Summing Up

10.11 Glossary

10.12 Answers to Check Your Progress Exercise

10.13 References

10.14 Questions for reflection and practice

10.1 INTRODUCTION

The involvement of formal public sector banks in India is much stronger than anywhere in the world. This means that a relatively (and increasingly) large share of the microfinance sector is under the purview of the central bank, the Reserve Bank of India (RBI).

The need for regulation and supervision of Micro Finance Institutions (MFIs) arise from several considerations. While all types of financial institutions irrespective of their origin and mode of registration and incorporation have to report statutorily to Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD) or to some specified agency like Securities and Exchange Board of India (SEBI) or National Housing Bank, the Non- governmental organizations (NGOs) engaged in providing microfinance services do not have to comply with any statutory requirement in this regard. These agencies mainly purvey small sized credit to their clients besides, in some cases, mobilizing small savings from them.

10.2 OBJECTIVES

After studying this Unit, you would be able to

- Discuss the need Micro Finance Institutions (MFIs) regulations;
- Explain the recent initiatives taken by the Reserve Bank of India (RBI) for MFIs regulation; and
- Examine the international initiatives with regard to MFI regulations with an example.

10.3 BACKGROUND FOR MFI REGULATION AND NEED FOR MFI REGULATION

Although most of these agencies like RBI, NABARD involve regulation of Micro Finance Institutions (MFIs) in periodic savings only from their target clientele to whom they have sanctioned loans, there may be cases, at least at certain points or phases of operations, when the accumulated savings of all or certain members are higher than the aggregate loans availed by them. In India, government has brought more institutions to provide micro finance services in a large way. As experienced so far in the Micro Finance sector activities, savings would be an important component of the financial services provided by them. Therefore, there is an imperative requirement for protecting the interests of all the small savers who, quite often, may not even have any worthwhile document to show as proof of their meager savings. Being part of the financial sector, the need for regulation of NGO-MFIs to protect the poor from some institutions of doubtful credibility, as also poor fund management capabilities can hardly be questioned.

The composition of the savers under the fold of the MFIs needs a close look. A question is also raised as to what would be the status of the savers with the MFIs who are not loanees or were not loanees earlier also. It is observed that the savers under the fold of MFIs are generally poor and members of one or the other of their development interventions awaiting coverage under their credit schemes. It is also understood that unlike in the case of primary cooperatives, there is no concept of "membership" of the NGOs for the savers and loanees, as the membership per se for the societies registered under the Societies Registration Act, 1860 or the Indian Trust Act, 1882 comprises the promoters of the societies who themselves cannot avail of any benefit from the societies. Consequently, the "members" of the development programmes of such societies can be classified as best as "clients" or "beneficiaries" of the various interventions of the societies. Hence, savings mobilized by the NGOs are virtually collected from the members of the public. This reinforces the need for regulation of the MFIs further.

Credit, even though accompanied with other social development functions, is a commercial activity. Whether it is accompanied with savings mobilization or not, there is need for regulation from the point of interest rates, terms of credit, etc. Further, under the Usurious Loans Act, 1918, even the persons carrying on business of money-lending have to obtain licence from the appropriate authority. It is quite logical that NGO-MFIs also are brought under some regulation.

The MFIs also need to observe financial discipline, whether self-imposed or dictated by the state, for sustainability of their microfinance operations. The Task Force is of the opinion that rules governing the functions of NGO-MFIs have to be clearly spelt out if this sector has to witness orderly development and sustained growth.

Significantly, a large number of donor agencies have shown interest in supporting MF activities through SHGs or other types of delivery mechanisms. Further, different government departments are also providing funds for microfinance activities with varying terms of service, interest rates, etc. In the entire financial sector, MFIs comprising institutions of the NGO family are the only ones, which are outside the purview of any institutionalized system of reporting. It is, therefore, also necessary to have a reporting system that enables the RBI and the Government of India (GOI) to have a complete picture of the microfinance scenario in the country including, inter alia, the agencies involved, the direction, volume, and sources of the flow of funds through these agencies, and terms of financial transactions including interest rates, loan periods, etc.

The Task Force is of the view that the regulation of the MFIs would be *sine qua non* for development of this sector. It also took into account the view that regulation could stifle the growth of MF sector and rob it of its flexibility and informality in operations. But, having regard to the interests of the small savers, the need for proper credit discipline for the growth of this sector, such regulation of MFIs is considered essential. The Task Force, therefore, wants to emphasis that the spirit of the regulation would have to be pro-active and development-oriented for the growth of MF sector.

The Task Force has examined at length the scope of regulation and supervision and is of the view that the regulation of the MFIs may cover registration, reserve requirements, compliance with prudential norms, directions in respect of microfinance operations, and reporting system to the competent controlling authority. Supervision of the MFIs may comprise on-site inspection and off-site supervision to ensure that the functioning of the MFIs is not detrimental to the interests of the people.

Check Your Progress Exercise 1

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Discuss the reason for MFI regulation.

____

____

____

2. Brief -Legislations Affecting Institutions Engaged in Micro-Finance.

____

____

____

10.4 CATEGORISATION OF MFIs

The main categorisations of MFIs are as follows:

• Microfinance NGOs; Federations of SHGs, usually in the form of cooperatives such as Mutually Aided Cooperative Societies (MACS); Deposit-taking Non-Banking Financial Companies (NBFCs); NBFCs registered as Section 25 companies; Banks comprising commercial banks (both public and private), Regional Rural Banks (RRBs), cooperative banks and Local Area Banks (LABs.

The first four are often generically referred to as MFIs, while banks serving the microfinance sector are also called microfinance service providers. RBI is the regulatory body for the Banks. They are governed by the RBI Act, Banking Regulation Act, Regional Rural Banks Act (for RRBs) and the Cooperative Societies Acts of the respective state governments (cooperative banks). For RRBs and District Central Cooperative Banks (DCCB), the supervisory tasks have been delegated to NABARD.

NBFCs are registered under the Companies Act, 1956. They are also required to be registered with the RBI under the RBI Act, 1934, and must comply with directions issued by the RBI. Section 25 companies are not-for-profit NBFCs registered under Section 25 of the Companies Act. Under certain conditions, they are exempted from a number of legal requirements under the RBI Act.

There is no specific law catering to NGOs. Microfinance NGOs can be registered under the Societies Registration Act, 1860, the Indian Trust Act, 1882, or the relevant State Acts. The grassroots level formations or groups (Self Help Groups or Credit and Savings Groups), through which other financial institutions are channelling their financial services, are informal and unregistered. The main funding sources for NGOs are donors, government departments and to a small extent bank credit as well as the savings of the poor. The SHG-Bank Linkage Programme opened up the banking system as an additional source of funds.

Check Your Progress Exercise 2

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. There is no law catering to NGOs. Discuss.

10.5 RECENT INITIATIVES IN THE FIELD OF MICROFINANCE REGULATION

Below, some of the most important initiatives in the field of Microfinance Regulation:

10.5.1 The NABARD Task Force

A high-powered Task Force on Supportive Policy and Regulatory Framework for Microfinance (henceforth referred to as the Task Force) was set up by NABARD at the instance of RBI in November 1998. The Task Force comprised senior officials from Government of India, RBI, NABARD, banks and chief executives of prominent NGOs implementing various microfinance models in the country. The objectives of the Task Force were to come up with suggestions for a regulatory framework that brings the operations of the MFIs into the mainstream, to assess the possible role of self-regulatory organizations and to explore the need for a separate legal framework for microfinance.

10.5.2 Other working groups on regulatory issues

In October 2001, seven working groups comprising government, NGOs and banking sector representatives were set up, one of them with the mandate of exploring the legal and regulatory challenges currently faced by the microfinance sector in India. The Indian microfinance association ***Sa-Dhan*** – as one of the members of the group looking into regulatory issues – prepared a report summarizing the group's results. This report gives clear recommendations regarding how to make the current legal framework more microfinance-approachable. Some of these need immediate attention; some are for the longer term. In addition, the document indicates a way forward for the debate with a strong emphasis on gathering information about the sector. It has been mentioned in the report that

"As the microfinance sector has grown, there has been increasing recognition of the need for change due to the fact that:

a. MFIs' emphasis on credit often exclude the risk-averse poorest who would rather save in order to meet future needs and crises than to incur debt through getting a loan. But the legal framework has prohibited MFIs from offering voluntary savings services;

b. There has been increasing pressure from low-income clients in general to add more flexible savings services, thus providing depositors with security, convenience, and liquidity and, ideally, some rate of return. Again the law has constrained this development; and

c. If priced correctly, savings instruments can contribute to institutional self-sufficiency and to wider market coverage.

Check Your Progress Exercise 3

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. What are the initiatives in the field of Microfinance Regulation?

____

____

____

2. What are the recommendations from the Regulatory issues?

____

____

____

10.6 RECENT REGULATORY AMENDMENTS FOR MICRO FINANCE

Several legal and regulatory changes were initiated over the recent years. The most important changes are a number of instructions issued by the RBI. It is important to note that the Reserve Bank of India often issues very comprehensive notifications in circular letters giving detailed instructions, explaining its policy or stipulating regulations. To give an example, between 1998 and 2013, the RBI has published 35 notifications regarding NBFCs alone. The following are the some models issued by Reserve Bank of India.

10.6.1Mainstreaming of SHG-Bank linkage model

According to the model, formal banks lend either directly or through an intermediary such as an NGO or an SHG federation to the groups of poor people, mostly women. Based on the recommendations of the Working Group, RBI in 1996 issued instructions to the banks to treat the SHG-bank linkage model as part of their mainstream lending. According to the circular, lending to SHGs or to NGOs for on lending to SHGs is taken as part of their directed lending.

Furthermore, SHGs are allowed to open savings accounts with banks. The operational guidelines, earlier issued by NABARD in 1992 for lending to SHGs, envisaged complete flexibility for the banks in regard to lending norms like interest margin, amount to be lent, use of collateral security, repayment period etc. These guidelines are well accepted by the banking system for providing financial services to the poor. In April 1999, RBI set up a 'Micro Credit Special Cell' for further focus and development on MFIs.

10.6.2 Amend existing legislation for MFIs

There is an assumption that the SHG-bank linkage model alone cannot satisfy the huge demand for financial services, and that there is also a role to play for MFIs in the future, particularly in the areas where bank branches are few and far between. A view that emerged strongly out of the discussions was that there has been a fall in the percentage of banks' lending to the poor and that the number of loan accounts below Rs. 25,000 has come down considerably over the years. It is felt that there is scope for microfinance models other than the SHG-bank linkage model as some of the MFIs have been very successful in various parts of the country. This goes in line with the instructions issued by the RBI in the wake of the Task Force recommendations, which provide for growth of all viable microfinance models.

10.7 ISSUES WITH MICROFINANCE NGOs, SEC 25 COMPANIES and NBFCs

10.7.1 Issues with Microfinance NGOs

Microfinance NGOs are not under specific financial sector legislation, but under the Societies Registration Act, 1860, and the corresponding Acts of the provincial governments, or under the Trust Act, 1882. Not surprisingly, both State Acts originating from the 19th century lack clarity with regard to NGOs pursuing microfinance operations. Furthermore, the carrying out of lending activities against interest can easily lead to the denial of the charitable status. Borrowing and on lending by NGO-MFIs is so far recognised mainly on the basis of executive orders and administrative instructions issued by the RBI and Government of India(GoI).

Limited availability of commercial funding sources is one of the major issues for NGOs.

• Section 45S of the RBI Act, 1934, states that no unincorporated bodies are allowed to accept deposits from the public. Unincorporated bodies are nothing but organisations registered under the Societies Registration Act and the Trust Act. The Task Force recommended that for the limited purpose of accepting savings from their clients, NGO-MFIs may be considered as incorporated bodies and excluded from the purview of the Section 45S of the RBI Act, 1934. This recommendation has not found favour with RBI.

• The only kind of deposits accepted by MFIs is cash deposits and if these cash deposits are held in a commercial bank account, international experience does not require prudential regulation of these MFIs. In India, MFIs are not permitted to take cash deposits as part of their lending technology, although some of them do.

• Another source of funding for NGO and MFIs are Commercial borrowing. Banks must therefore basically rely on the past performance of the NGO's loan portfolio (as the main asset of NGOs) as an indicator for their repayment capacity.

• As shareholder contributions are not an option for NGOs either, the only options left are donor and government funds, the most important being funds from the SFMC. The flow of donor funds is often unpredictable and at times associated with burdensome reporting requirements, which makes it difficult to expand business in a planned manner.

• In most cases, NGO-MFIs are exempted from the Income Tax Act. The crucial question is whether the relevant tax authority acknowledges micro-lending as a charitable activity. As there is no blanket exemption for all NGO-MFIs, some of the tax authorities are reported to have at times levied taxes on NGO-MFIs. The risk is particularly high if an NGO earns a substantial part of its income from lending activities or, even more so, if it makes a profit.

10.7.2 Issues with Section 25 Companies

The issues with Section 25 Companies are similar as those problems of NGOs. Even while most Section 25 companies have been exempted from paying income tax for their lending operations, it is understood that, similar to NGO-MFIs, registration under Section 12A of the Income Tax Act, 1961 has not been granted as a matter of routine or principle. The RBI informal group on regulatory issues has recommended complete tax exemption for Section 25 companies purveying microcredit. Donations to MFIs are also to be exempted from income tax. Additionally, Section 25-1A of the Companies Act, 1956, mentions as objectives of such charitable. Section 25 mentions objectives of companies which are commerce, art, science, religion, charity or any other useful object. It is not quite clear whether microcredit falls under this definition.

Moreover, the same restrictions as for NGOs apply to deposit mobilisation for Section 25 companies. Yet differently to NGOs, Section 25 companies have found it easier to access bank and they definitely have an added advantage as they can mobilise equity. Transformation from an NGO into a Section 25 company is easier than into a regular NBFC as the parent NGO can potentially invest in the share capital of a Section 25 company. Section 25 companies are required to submit their annual accounts to the Registrar of Companies. Apart from this, there is at present no external regulation for these companies.

10.7.3 Issues with NBFCs

NBFCs are the only type of MFI under purview of the central bank and being subject to prudential regulations. A number of NGOs have recently set up for-profit NBFCs – Bharatiya Samruddhi Finance Limited as part of the BASIX Group, SHARE Microfinance and CASHPOR Financial & Technical Services Ltd. (CFTS) are prominent among them. These leading three NBFCs disburse 76 percent of all loans of NBFCs in microfinance. As for-profit companies, they have to pay income tax on their lending operations.

The minimum capital requirement for a licence as a NBFC was one of the issues brought up by the MFI sector. It currently stands at Rs. 20 million (US$ 450,000), which is considered to be quite high. While this figure seems not to be high in comparison with other countries, NBFCs are restricted by having to bring in the capital as fresh money. NGOs are not allowed to invest capital in a non-charitable institution. Thus the most common route in other countries to set-up a for-profit MFI – the parent NGO investing its net-worth in a newly founded institution - is apparently closed for Indian NGOs.

• The NBFCs engaged in microfinance does not accept deposits from its clients. NBFCs need to have branches or may have to appoint agents to collect deposits. It is necessary for the NBFCs to seek RBI permission for opening branches.

• The RBI has announced very stringent norms for the NBFCs who wish to take up insurance business. Thus the microfinance-NBFCs cannot take up insurance business or transfer of funds, etc.

• The Government of India has allowed foreign equity investment in NBFCs subject to a ceiling of 51% and a minimum amount of US$ 500,000.

• RBI currently undertakes the supervision of NBFCs engaged in microfinance. Some microfinance practitioners made the proposal to delegate supervisory tasks to a as-yet-unidentified third party, which would act as an agent for RBI.

• In the legislation, nine types of NBFCs are distinguished between, yet none of these is 'microfinance NBFC'. The Task Force has recommended the creation of a separate type of NBFC, yet the RBI has apparently not accepted this recommendation. According to the discussions of the consultant team with the RBI, MFIs are free to apply for an NBFC licence under the currently available legal provisions.

• Interest rate caps can be introduced by state governments under existing state legislation. This was, for example, recently the case in one state, where not only moneylenders, but also MFI-NGOs, were at risk of being punished if charging interest rates higher than 12%.

10.8 WAY FORWARD- A NEW SPECIAL LAW FOR MICROFINANCE

Judging from the current discussions in India, it seems not yet to be clear which MFIs should be covered under the legislation – only the deposit-taking MFIs, Section 25 companies and NGO-MFIs or even banks' with microfinance portfolios. It is doubtful whether the commercial banks, RRBs and the cooperative banks, as important players in the microfinance sector could in any beneficial way be covered under the Act. Going for a functional regulation - i.e. a new law which covers all microfinance activities irrespective of the institutional form under which it is offered - the first step would be to clearly define microfinance from a regulatory point of view. International experience shows that this is a multi-dimensional task. The outcome could be to introduce a tiered structure of MFIs with different levels of sophistication, different numbers of products to be offered (credit-only, term deposits, savings, insurance, etc.) and varying degrees of regulatory oversight.

Microfinance activities in India are covered under a number of different acts and regulations, many of which are very old and not specifically meant for microfinance. There is a feeling among many microfinance practitioners that a special and separate exclusive law for microfinance could be very useful for the growth of microfinance activities.

There is a sense of insecurity particularly among those NGO-MFIs who are implementing the Grameen model and are mobilizing savings from their clients. Regulation in any form, either through a separate law or an additional chapter in any Act, would provide them with much-desired recognition of their activities.

As of now, it appears that both the GoI and the RBI are not very keen to introduce a new Act. Experiences from other countries show that the introduction of totally new legislation of this type requires political conviction and a lot of staying power. In view of this complex legal and political process, there was a feeling that the addition of a few provisions on microfinance in some of the existing Acts could be a better alternative.

10.9 A LOOK AT RELEVANT INTERNATIONAL EXPERIENCE FOR REGULATION

Banking laws in many countries compartmentalize and segment markets and institutions, constraining innovations and making MFIs' institutional development difficult. While the global experience demonstrates the potential for operational growth of MFIs, the range of institutional channels is segmented by the legal and regulatory environment. The framework for banking laws should be structured to provide MFIs a clear view of the thresholds to attain on the path to institutional development and transformation -- even if not all MFIs choose to follow that path.

The vast majority of NGO- MFIs will remain as retail delivery channels for microfinance programmes and a few may reach sustainability without ultimately transforming into a licensed bank. Some MFIs may be better off remaining as low-leverage, slow-growth but effective service institutions linked to larger institutions in meeting the needs of their existing clients. Any decision to transform, evolve, or maintain a status quo is dependent on an MFI's strategic plans for its future. However, the experience of microfinance practitioners in many different settings throughout the developing world underscores the proposition that the future for sustainable microfinance lies in a regulated, licensed environment – because there is no other environment that will permit massive, sustainable delivery of an increasing variety of financial services to the poor to effectively link them to the more developed sectors of an economy.

MFIs have large numbers of clients but low overall account balances compared with traditional financial institutions. While MFIs' share in total assets of the financial system is relatively small, direct measurements of MFIs' relative position in the overall financial system do not take into account the sector's volume of deposits in total banking system deposits, since MFIs maintain their operating accounts and clients' deposits in the banks. Their outreach, measured by the percentage of the population doing business with MFIs, can be quite large. As the clients belong to poor segments of the population a bankruptcy of either the MFI or its depository bank would have adverse consequences. The argument that regulation and supervision in microfinance are less important because of its small place in the financial system misjudges the exceptional receptiveness of this segment and its possible contribution to financial systems development.

The countries which have moved towards a tiered financial and regulatory structure include Bolivia and Peru in Latin America; and Uganda, Ghana and Zambia in Africa. A number of countries in Eastern Europe -- e.g., Albania, Bosnia and Georgia – are restructuring their banking laws and prudential regulations to establish a tiered approach to accommodate specialized financial institutions with capitalization requirements much lower than those for regular commercial banks. In Southeast Asia, the Philippines and Indonesia have had tiered banking structures, although the existing regulatory framework still does not make it possible for a range of MFIs to be integrated into the regulated financial sector. India also has in place basic statutes that would permit the establishment of smaller regulated financial institutions with a regional focus.

None of the countries with a mature microfinance sector is relying on a single model to provide microfinance services. In Bolivia, Private Financial Funds, Open Savings and Loan Cooperatives and even a commercial bank are the main sources of financial services for the poor. Ghana has both Regional Rural Banks and Savings and Loan Cooperatives serving the microfinance market. In Indonesia, there are BPRs, BKDs and LDKPs and, of course, the Village Units of Bank Rakyat Indonesia (BRI). An important lesson seems to be that a variety of institutional forms helps to reach more people.

The same is true for India: It will be important to improve on safeguards of the SHG-bank linkage model against potential future risks. But at the same time, the various types of MFIs can potentially play a stronger role in the future. Looking at other countries' experience, one can see that mature customers become more and more interested in individual loans, easy access to flexible savings facilities and even other financial services like money transfers and insurance products. Thus the limitations of the linkage-banking model in terms of size of products (large loans and savings accounts), number of different products and scope for diversification might become restrictive for more successful members of SHGs. It can be argued that these members can turn into attractive individual customers of the bank branches, thus having access to a wider range of products.

There is still a need for improving the access of poor people to savings facilities. The success of the Sahara India Financial Corporation (SIFCL) is an example that savings mobilisation and lending must not necessarily be undertaken by one and the same institution. A specialised savings collector like SIFCL does not pose a great risk to the financial sector. It follows the narrow-banking concept, according to which banks are required to back demand deposits entirely by safe short-term assets. The huge unmet demand underscores the fact that banks may have to take more initiatives in providing savings services to SHG members than their routine savings bank accounts. There has not yet emerged something like a best practice as to how to achieve an appropriate legal environment for microfinance. Political processes differ from country to country. Evidence from other countries tells us that consultation of all relevant stakeholders is important. On the other hand, too much consultation can lead to an unwelcome delay of the process.

In India, there already exist bountiful studies on the legal environment for microfinance. What is required now is a decision on the general approach and then the implementation of the necessary changes.

Check Your Progress Exercise 4

Note: i. Use this space given below to answer the question.

ii. Compare your answer with the one given at the end of this unit

1. Discuss international experience for regulation.

____

____

____

2. Discuss issues with section 25 companies.

10.10 SUMMING UP

In this Unit, we have discussed the existing scenario with regard to MFI regulation in India. The Unit begins with discussing the need for MFI regulation in India. The Unit also mentioned the institutions involved in MFI regulations in India. Along with discussing Indian experience, the Unit has given international experience. Finally, the Unit mentioned the significance of MFI regulations for the inclusive financial growth.

10.11 GLOSSARY

Non Banking Financial Companies (NBFC) - Non-bank financial companies (NBFCs) are financial institutions that provide banking services without meeting the legal definition of a bank, i.e. one that does not hold a banking license. These institutions typically are restricted from taking deposits from the public depending on the jurisdiction. Nonetheless, operations of these institutions are often still covered under countries banking regulations. The specific banking products that can be offered by NBFCs depends on the jurisdiction, and may include services such as loans and credit facilities, savings products, investments and money transfer services. In some jurisdictions, such as New Zealand, any company can engage in banking business, except they are not allowed to use the word bank in their name. A company can only call itself a bank if is a registered as such with the nation's central bank, the Reserve Bank of New Zealand.

10.12 ANSWER TO CHECK YOUR PROGRESS EXERCISE

Check Your Progress Exercise 1

1. The main features of the reason for MFI regulation:

   Regulation helps in long term sustainability, even though MFIs may chafe under it in the initial years. The need for regulation and supervision of MFIs arises from several considerations like protecting the interests of the small savers, ensuring proper terms of credit, instilling financial discipline and having a proper reporting and supervision system. Regulation and supervision ensure that MFIs are run prudently and cases of poor people losing their money due to fraud or incompetence are minimised.

At present, most Indian MFIs are NGOs, and thus not treated as part of the mainstream financial sector. The question of their supervision and regulation from the financial angle has recently arisen. Reservations have been expressed about the legality of NGO-MFIs providing financial services, particularly savings and insurance. However, there has been a general acceptance of the social intermediation role of such institutions for the delivery of financial services to the poor. Various actions and announcements of the GoI and the RBI are indicative of the acceptance and recognition of the role of NGO-MFIs as part of the micro-finance sector.

While NGOs discovered micro-credit, due to the reasons cited above, NGO-MFIs find it problematic to work as financial intermediaries beyond a certain scale of operations. Moreover, NGOs do not have the appropriate financial structure for carrying out micro-finance activities. Because NGOs are registered as societies or trusts, they do not have any equity capital. Thus, they can never be "capital adequate".

The recent Microfinance Task Force set up by the RBI Governor has suggested that NGO-MFIs may carry on financial intermediation activities till a business volume of Rs 5 million. Beyond that scale, there is a need to shift the activity to an MFI registered either as a co-operative or as a company.

2. Legislations Affecting Institutions Engaged in Micro-Finance**:**

The Legal formats of MFIs that are provided by Indian law can be classified by the profit motive:

Not-For-Profit Entities are trusts, societies and section 25 companies.

For-Profit enterprises are Non-Banking Financial Companies (NBFCs).

The following legislations regulate the functioning of MFI's in India

(i) Reserve Bank of India Act, 1934

The Reserve Bank of India Act 1934 establishes the central bank (Banking Regulatory Authority of India). It is of interest to the question of the regulation of micro-finance in that under a 1977 Amendment it contains provisions for the establishment and operations of non-bank finance companies. The non-banking institutions can be a company, a corporation or a cooperative society. A non-bank financial company (NBFC) is a non-banking institution company and takes deposits. NBFCs are registered under this Act.

(ii) Banking Regulation Act 1949

The Banking Regulation Act 1949 covers "banking companies". It does not apply to primary agriculture credit societies, cooperative land mortgage banks and any other cooperative society. It is not directly relevant to micro-finance, other than the fact that it coves local area banks and commercial banks, which are involved in linkage operations. The Banking Regulation Act provides the basis for the licensing of local area banks and mutual benefit societies.

(iii) Companies Act 1956

The companies Act 1952 provides the basis for the incorporation of Local Area Banks, Non-Bank Finance Companies, non-for-profit "Section 25 Companies" and Nidhis under Section 620.

Certain revisions have been proposed in the Companies Act which would allow cooperatives in the form of companies and could offer micro-finance services. Those are Co-operative Societies Act of 1904; Mutually Aided Co-operative Societies Act in 1995 (Andhra Pradesh) Societies Registration Act of 1860 and Indian Trusts Act -1882.

The term "cooperative" covers a range of institutions, both formal (stated-owned cooperatives banks) and semi-formal (cooperative societies), which are regulated and/or unregulated.

Enterprises registered under the Societies registration or Indian Trusts Acts are semi-formal institutions engaged in micro-finance. The Acts do not provide a basis for any of regulation so far. There is a tax problem in that societies and trusts cannot engage in for-profit activities, including financial services.

Co-operative Societies Act of 1904 covers cooperative, SEWA Bank is registered as a co-operative society, under this act but is regulated by the RBI from which it obtained a banking license.

With the post liberalization era, market-oriented approach to rural finance advocated a new form of co-operative societies act. Andhra Pradesh enacted the mutually Aided Co-operative Societies Act in 1995, allowing the formation of cooperatives largely immune from government intervention. Three other States subsequently enacted similar legislation (Bihar, Madhya Pradesh and Jammu & Kashmir). The Multi-State Co-operatives Societies Bill Act 2002 is operative currently and it replaces the MCS Act, 1984.

Check Your Progress Exercise 2

1. There is no specific law catering to NGOs. Microfinance NGOs can be registered under the Societies Registration Act, 1860, the Indian Trust Act, 1882, or the relevant State Acts. The grassroots level formations or groups (Self Help Groups or Credit and Savings Groups), through which other financial institutions are channelling their financial services, are informal and unregistered. The main funding sources for NGOs are donors, government departments and to a small extent bank credit as well as the savings of the poor. The SHG-Bank Linkage Programme opened up the banking system as an additional source of funds.

Check Your Progress Exercise 3

1. In November 1998 a high-powered Task Force on Supportive Policy and Regulatory Framework for Microfinance (henceforth referred to as the Task Force) was set up by NABARD at the instance of RBI. The Task Force comprised senior officials from GoI, RBI, NABARD, banks and chief executives of prominent NGOs implementing various microfinance models in the country. The objectives of the Task Force were, among others, to come up with suggestions for a regulatory framework that brings the operations of the MFIs into the mainstream, to assess the possible role of self-regulatory organizations and to explore the need for a separate legal framework for microfinance. To date, this has been the most comprehensive study about legal issues for microfinance.

2. Major recommendations of these informal working groups are to create a separate category of non-deposit taking NBFCs with a lower capital requirement of Rs. 2.5 million (US$ 56,000), and to require NGOs and federations of SHGs either to wind up their savings business and transform into Section 25 companies or to transform into NBFCs or MACS.

Check Your Progress Exercise 4

a. None of the countries with a mature microfinance sector is relying on a single model to provide microfinance services. In Bolivia, Private Financial Funds, Open Savings and Loan Cooperatives and even a commercial bank are the main sources of financial services for the poor. Ghana has both Regional Rural Banks and Savings and Loan Cooperatives serving the microfinance market. In Indonesia, there are BPRs, BKDs and LDKPs and, of course, the Village Units of Bank Rakyat Indonesia (BRI). An important lesson seems to be that a variety of institutional forms helps to reach more people. The same is true for India: It will be important to improve on safeguards of the SHG-bank linkage model against potential future risks. But at the same time, the various types of MFIs can potentially play a stronger role in the future.

b. Section 25 companies are subject to some similar problems to NGOs. Firstly, even though most Section 25 companies - as not-for-profit institutions - have been exempted from paying income tax for their lending operations, it is understood that, similar to NGO-MFIs, registration under Section 12A of the Income Tax Act, 1961 has not been granted as a matter of routine or principle. Thirdly, the same restrictions as for NGOs apply to deposit mobilisation for Section 25 companies. Finally, although microfinance defined by the Task Force and accepted by RBI provides for financial services of very small amounts, the RBI instructions exempting Section 25 companies from registration and reserve requirements for NBFCs stipulate that loans should not exceed Rs. 50,000 (US$ 1,100) for non-housing purposes and Rs. 125,000 (US$ 2,800) for housing purposes.

10.13 REFERENCES

Feroze SM, AK Chauhan. **Microfinance in India: A performance evaluation,** New Delhi: New century Publications, 2011

Debadutta Panda. **Understanding Micro Finance**, New Delhi: Wily India Private Limited, 2009.

Sa-Dhan. **Microfinance in India: Report for the Empowered Committee Headed by Shree S.K. Purkayastha. Addressing the Legal and Regulatory Challenge.** New Delhi: Sa-Dhan. 2002

www.ididr.ac.in

Sinha, Sanja, et al.. The Outreach/Viability Conundrum: Can India's Regional Rural Banks Really Serve Low-Income Clients? Gurgaon, India: Micro-Credit Ratings International Ltd. 2003

Staschen, Stefan. Regulation and Supervision of Microfinance Institutions in South Africa. Eschborn, Germany: Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), 1999

NABARD **Task Force on Supportive Policy and Regulatory Framework for Microfinance Report,** 1999

www.microfinanceinfo.com

APMAS. National Workshop on SHG Federations: A Report, June 20-21, Hyderabad, 2003.

10.14 QUESTIONS FOR REFLECTION AND PRACTICE

1. Trace the RBI regulations in MFI. What are the measures RBI taken to regulate the MFI?