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Role of commercial banks towards financial inclusion of women and sustainable Development

Dr.Shashikala
Assistant professor of Economics, Maharanis Arts college for women, Mysore

Abstract: Increasing globalization has resulted in increasing remittance throughout the world. The uploaded technology can no long more exclude the people from the view point of utilization. Today, the banking industry has shown tremendous growth in volume and complexity. As banking services are in the nature of public good it is essential that availability of banking and payment services are provided to entire population in an egalitarian manner. In India, focusing on inclusive growth, financial inclusion has been used as one of the major component to active this stipulated target.Commercial banks are now slowly coming to appreciate the business potential in financial inclusion and also the need for better involvement. Commercial banks have a significant role to play in financial inclusion, especially in the post-amalgamation scenario. The vast postal network, leveraging on their immense outreach, could also be an effective vehicle for purveying financial services.

Introduction:

Financial institutions are the pillars of economic growth and sustainable development. Lack of accessible, affordable and appropriate financial services has always been a global problem. Therefore, the significance of an inclusive financial system is widely accepted not only in India, but has become a policy priority in many countries. Financial access can really boost the financial condition and standards of life of the poor and the disadvantaged. So, RBI has been constantly encouraging the banking sector to develop the banking network both through setting up of new branches, installation of new ATMs, implementation of EBT and also through BC model by leveraging upon the information and communication technology (ICT).

Banks play an important role in mobilization and allocation of resources in any country. Rural people in India are facing problems in the inadequate supply of credit. The major source of credit to rural households, particularly-low income working households, has been the informal sector. Informal sector advances loans at very high rates of interest; the terms and conditions attached to such loans have given rise to an elaborate structure of

Corresponding author: **Dr.Shashikala**

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intimidation of both economic and non-economic conditions in rural population in India.

In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a saving bank account without frills, to all. Internationally, the financial inclusion has been viewed in a much wider perspective. Having a current account/savings account on its own, is not regarded as an account indicator of financial inclusion.

The banks in India have disbursed a massive volume of credit to the rural areas. Notwithstanding the proactive role of banks in implementing government sponsored poverty alleviation programs such as IRDP, the economic enablement through capital transfer and application could not gather the desired momentum. The Indian banking Industry has been plagued with low returns on micro credit operations, coupled with the high cost of microfinance services and has become apprehensive in providing the much needed impetus to this socially and financially important sector. The banks in India have credit barring the last few years, they have worked in a regulated interest rate regime and mandated target lending. Thus, the banks have traversed through the security oriented individual banking to subsidy oriented individual banking. However, the large volume of mandatory lending has piled up unmanageable nonperforming assets and has affected the viability of the banks. The search for a viable and sustainable means of purveying credit to the poor continues.

This article briefly traces the historical and contemporary imperatives to provide financial services to the rural poor and the institutional responses to the same. The period since 1991-92 has seen a fairly rapid expansion of credit to agriculture. The Government took some major initiatives during the period to boost agriculture production and productivity through enhanced credit flow and by way of building agricultural infrastructure, particularly irrigation and connectivity in rural areas. Lending to low income groups and increasing financial inclusion need motivated bank staff. Such motivation is a function of attitudes and beliefs as also a system of incentives / disincentives put in place by the bank's management for special efforts / failures to achieve desired levels of financial inclusion. In this regard commercial bank, Regional Rural Bank Co- Operative Banks is significant role in financial inclusion of women and women empowerment.

Objective:

1. To examine the role of Commercial Banks in achieving financial inclusion of women and empowering women.

Financial inclusion:

In India, the concept of financial inclusion was first incorporated in 2005, when it was introduced by K.C. Chakraborthy, the chairman of Indian Bank. Financial inclusion has become a buzzword internationally- even in developed financial markets there are concerns about those excluded from the banking system. The barriers to access to formal banking

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system have been identified as relating to cultural, education, gender, income and assets, proof of identity, remoteness of residence and so on. Efforts are being made by the authorities- especially banking regulators to improve access to affordable financial services through financial education, leveraging technology and generating awareness.

Significance of Establishing Linkages of SHGs with Banks:

The self-help group (SHG)-bank linkage programme started in 1992 as a pilot project initiated by NABARD and involving three agencies, viz., the SHGs, banks and NGOs.The credit linkage of Self Help Groups (SHG) and Joint Liability Groups (JLG) by Commercial Banks is one of the major initiatives to bring low income poor people into the banking stream. The poor people come together and pool the savings of group and dispense small loans for meeting the individual requirements of members.The linking of the SHGs with banks aims at using the intermediation of SHGs between the banks and the rural poor for cutting down the transaction costs for both banks and their rural clients. Of late especially since late eighties it is being realized in India that SHGs can establish relationship between the formal financial institutions and the poor for providing credit and other banking facilities.

The SHG approach involves formation of informal groups for pooling their savings through regular periodical meetings and then on lending among the members at some self decides rate of interest ranging from 1 to 3 percent per month. Women led SHG's in many parts of the country have achieved success in bringing the women to the mainstream of decision making. Up to 31-03-2012, 79.60 lakh SHGs were linked and 43.54 lakh SHGs were linked with various banks across the country. Though progress under the SHG-bank linkage programme was slow during the initial years of commencement, it started expanding rapidly after 1999.As at end-March 2012; about 103 million rural households had access to regular savings through 7.96 million SHGs linked to different banks. Though the number of SHGs maintaining savings accounts with banks increased during 2011-12, compared with previous year, total amount of SHG savings outstanding in banks declined.This search led to the development of a delivery mechanism which encompasses financial relationship between informal organizations of the poor like the SHGs and formal organizations like Banks.

Acceptance of SHG- banking by the formal banking system in India:

SHG banking has become a big challenge to the formal banking system to India and has led to a process of "downscaling" (Seibel) and new capacity building in banks to handle SHG banking.

1.SHG banking looks as an escape from well-established banking practices which required

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written contracts with individuals, a clearly defined activity for loan use, which has been exclusively one purpose oriented, required legal character of the borrower collateral etc. when it comes to banking with the poor the most rigid requirements of the formal banking system have been overthrown.

2. SHG banking cannot be desorbed in the usual frame of credit policies and bank management. Bankers as an instrument of a credit delivery mechanism of the Government exclusively following Government instruction and not their own professional institution in doing bank business. SHG banking is therefore an extremely innovative approach in banking.

3. It allowed substantial freedom to operate in the low income client market segment which was not considered bankable, So far SHG banking allowed a flexible and more unregulated service design and most flexible credit product design in order to fully meet the requirements of the low income households and particularly of women.

4. It requires different attitudes and a different motivation of bank staff involved in SHG finance to do "social banking" with the poorer section of the village society and especially with women. And to do this banking purely under commercial conditions.

5. Those bankers handling the SHG banking portfolio enjoy this complete new banking experience, very careful and sensitivity conceived loan applications by SHGs near perfect loan recovery, the discovery of financial discipline and money allocation skill of poor people and their reliability entrepreneurial capacity and dignity.

6. SHG banking gave the participating bankers whom we met during our field survey a new dimension of job satisfaction that they never had experienced before in "directed lending regime".

7. SHG banking initiated a change from supply ordered "directed" loan delivery to demand oriented service structures but the programme does not necessarily entail provision of advisory services support to low income people except to some cases of NGO promoted SHGs.

8. SHG banking made subsidiary attitudes towards autonomous SHGs possible and contributed to challenge the traditional banker's attitude of interference and a belief that the banker has all the solutions for his client.

9. SHG banking is predominantly women oriented.

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The three models of credit linkage of SHGs with banks:

Model I: SHGs formed and financed by banks. In this model, banks themselves take up the work of forming and nurturing the groups, opening their savings accounts and providing them bank loans. Increased role of banks in promoting and nurturing SHGs. In Model I, 16 per cent of SHGs are formed.

Model II: SHGs formed by formal agencies other than banks, NGOs and others, but directly financed by banks. Here, NGOs and formal agencies in the field of microfinance act only as facilitators. They facilitate organizing, forming and nurturing of groups, and train them in thrift and credit management. Banks give loans directly to these SHGs. In Model-II, 75 per cent of SHGs are formed.

Model III: SHGs, financed by banks using NGOs and other agencies as financial Intermediaries. In Model-III, 9 per cent of SHGs is formed (Erhard .w. Kropp 2002).

Hence, Linkage Banking in India is in fact, mainly the story of the evaluation, structure, process, progress and trends, constraints, strategies and perspective of the project of linking informal SHGs with formal banking system launched by NABARD. Linkage banking in India has emerged as a successful model which has the potential and promise of being a sustainable, successful, cost effective and transparent means of providing micro finance to the unreached rural poor.

Role of Commercial Banks:

Commercial banks are now slowly coming to appreciate the business potential in financial inclusion and also the need for better involvement. RRBs that are expected to function with the social heart of cooperatives and financial acumen of commercial banks have a significant role to play in financial inclusion, especially in the post-amalgamation scenario. The vast postal network, leveraging on their immense outreach, could also be an effective vehicle for purveying financial services.

Role of Commercial Banks in SHG Bank Linkage program me:

The SHG – Bank Linkage Program me was started as a pilot project by NABARD in 1992. It led to the evolution of a set of RBI approved guidelines to banks to enable SHGs to transact with banks. Commercial Banks have played a very important role in the SHG-Bank Linkage program me.In January 2006, the Reserve Bank allowed 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 or business

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correspondents by commercial banks. The bank asked the commercial banks in different regions to start a 100% financial inclusion campaign on a pilot basis.Scheduled Commercial Banks have opened 6,503 branches during 2012-13, out of which 2,051 are in rural areas, 2,479 in semi-urban areas, 1,065 in urban areas and 908 branches in metropolitan areas (Annual Report 2012-13, Ministry of Finance, GoI). In accordance with the efforts put forward by the Reserve Bank for opening new bank branches in rural areas, more than two-thirds of total new branches opened during 2011-12 were in rural or semi-urban areas. Expansion of banking network is done through the opening of new bank branches in various regions.

The excluded segments of the population require products which are customized, taking into consideration their varied needs. Their banking requirements being small, the issue of servicing and delivery in a cost-effective manner assumes significance. The need for savings by these groups require special attention, e.g. for meeting life cycle needs, creating assets, repaying high cost borrowings, meeting emergencies etc. The saving products offered at present do not effectively meet the needs. The services offered are also not suitable because of the spatial spread of the excluded people and also the small quantum of finance involved.

(a) Savings: Savings products to meet the specific requirements of the poor need to be evolved. One way of meeting this would be to utilize SHGs for tapping the small savings by providing incentives to the SHGs with suitable back-end technology support. The banks can develop medium and long term savings instruments by issue of pre-printed deposit receipts to the SHGs which in turn can be sold to the SHG members. Banks could be given the freedom to develop their own products, suiting local requirements and felt needs of the poor.

(b) Credit: With regard to credit products, the savings linked financing model can be adopted for these segments. The approach should be kept simple which should guarantee the beneficiaries about credit limit, subject to adherence to terms and conditions. The credit within the limit can be made available in 2-3 tranches, with the second and subsequent tranches disbursed based on repayment behavior of the first tranche. This is to ensure that the vulnerable groups do not get into a debt trap; it also ensures good credit dispensation.

(c) Insurance: Banks can play a vital role in this regard – by distributing suitable Micro-insurance products.

Role of Commercial Banks towards Financial Inclusion:

Banks play an important role in mobilization and allocation of resources in any country. Rural people in India are facing problems in the inadequate supply of credit. The major source of credit to rural households, particularly-low income working households, has been the informal sector. Informal sector advances loans at very high rates of interest; the terms and conditions attached to such loans have given rise to an elaborate structure of

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The whole process of financial inclusion will not be possible without the contribution of banks. Banks are the key pillars of India's financial system. Public have immense faith in banks. Share of bank deposits in the total financial assets of households has been steadily rising (presently at about 40%). Banks enjoy considerable goodwill and access in the rural regions. There are 32600 branches in rural India (about 50% of total), and 14400 semi-urban branches. 196 exclusive Regional Rural Banks in deep hinterland are present. Rural and semi-urban bank accounts constitute close to 60% in terms of number of accounts.

Commercial banks should take the following steps towards accelerating the growth of financial Inclusion

1. Bank should encourage greater interaction between financial sector and rural development staff to ensure that financial sector expertise is included on any rural project that has a finance component.

2. Bank with policy expertise and influence with governments should work to

a. Enhance the transparency and efficiency of court systems and strengthen land and property registries,

b. Eliminate government interest rate subsidies for agricultural lending,

c. Remove policy biases against the agricultural sector, e.g., price controls on staple crops and

d. Invest in communications, physical infrastructure, and services such as health and education.

3. Enhance and optimally utilize existing infrastructure rather than create new and costly delivery mechanisms that may never be viable. Financial services designed for the poor could be introduced through existing agricultural development banks that meet basic pre-conditions.

4. Instead of subsidizing interest rates to the end-clients, bank should use grants to build institutional capacity and promote innovation. Bank should also resist political pressure to include targeted or subsidized credit in agricultural projects.

5. Where appropriate, bank with experience in technical innovations could help to reduce the costs of operating in rural areas and improve services provided to rural clients by introducing new technology. Examples include ATMs linked to smart cards, and mobiles to peer group leaders. A careful cost-benefit analysis of any technology and assessment of institutions information systems should be conducted prior to commitment.

6. Bank should offer flexible grant funding to financial institutions seeking to adapt or introduce new financial products, or to reduce delivery transaction costs. Innovative

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solutions are especially needed to better fit the income and investment cycle of agricultural activities.

Table – 1 Different financial service provided by Banks

Credit	Saving	Insurance	Payment
Personal Consumer Credit card education Mortgage Home improvement Micro enterprises Business Assets Leasing	Saving account Current account Certificate of deposits Youth saving Others	Life Health Property Disability Agriculture crop Credit life	Money transfer International transfer Bill payments Government transfer Benefit transfers ATM/debit cards e-payments

The above table shows that the financial services provided by the bank to their customers. The financial services like credit; saving, insurance, payment etc. are provided by the bank to their customers, especially women SHG members are used these services and increase their income level. It leads to financial inclusion of women and empowerment of women.

Conclusion: In this twenty first century, the society must take an active people centered and growth- oriented poverty alleviation strategy – a strategy which seems to incorporate women's aspirations, dynamism and involvement. It is envisaged that, the Commercial Banks have plays a vital role in such strategy. But there is a need for structural orientation of the groups of new business. Micro- credit movement has to be viewed from a long term perspective under SHG framework, which underlines the need for deliberate policy implications in favor of assurance in terms of technology back-up product market and human resource development. Hence, there is a need for the development of an innovative and diversified micro finance sector, which leads to a real contribution to financial inclusion of women and empowerment of women.

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