Role of Banks in Promoting Financial Inclusion and Social Intermediation

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Abstract

Financial inclusion has emerged as a key driver of equitable economic growth, aiming to provide affordable financial services to the unbanked and underbanked sections of society. This article explores the pivotal role played by banks in advancing financial inclusion and fostering social intermediation. It examines how banks, through innovative delivery channels, digital banking, and targeted financial products, are extending access to credit, savings, insurance, and remittance services. The paper also highlights the contribution of banks in empowering marginalized communities, encouraging entrepreneurship, and promoting financial literacy. Furthermore, the article discusses policy initiatives and regulatory frameworks that support banks in bridging the financial divide. By acting as intermediaries between savers and borrowers, banks not only mobilize resources but also facilitate social empowerment, thus contributing to inclusive and sustainable economic development.

Keywords: **Financial Inclusion, Social Intermediation, Banking Sector, Financial Literacy, Economic Empowerment, Digital Banking**

1. Introduction

Financial exclusion relates to economic growth's ineffectual or inadequate participation of the poorer and vulnerable sections of society. An exclusive financial system would rule out the use of relatively cheap formal financial products and services. Vulnerable people depend on informal micro-finance services of deposits and loans, mostly being levied unreasonable interest. Financial exclusion affects not only savings, but it also corresponds to pending consumption. It is everywhere, ridiculing numerous objectives of poverty alleviation and economic development policies. Incorporating unbanked masses in the financial framework is a prerequisite for inclusive economic growth. Hence, financial inclusion ideas and debates draw increasing attention as a prerequisite for inclusive growth. The study scrutinizes financial inclusion policy issues in Bangladesh regarding access, efficiency, and effectiveness with some complimentary concepts (Chakraborty, 2018). The thesis revisits these concepts selectively but elaborately with respect to the financial inclusion issue considering Bangladesh as a case. It reflects on financial inclusion and new challenges, social intermediation, and empowerment roles of banks, and a study of financial literacy and its incorporation. Financial exclusion issues re-emerge with equal prominence and vigour, providing a feeling of insecurity to the previously expected supremacy of micro-finance, co-operative, and self-help groups in the proliferation of formal financial services. These financial services suffered from varied problems: lack of capital, too much competition, inability to productively use the gained capital, neglecting the poorest, over-lending, and hasty temptation by commercial banks hampering sound risk management. The banking industry anticipates far better performance in terms of tackling the challenges.

Financial inclusion has emerged as a sustainable solution for better target credit intermediation towards the unreached. Notably, the present banking system enjoys better outreach and access to poor borrowers concerning micro-finance institutions. Bank spread and profitability ratios indicate their superior efficiency and effectiveness. However, these did not completely unshackle the excluded. The possibilities of banks achieving better results through social intermediation to engender the excluded for viable productively borrowing are researched. Further, an outreach-profitability relationship is scrutinized, and how best access-efficiency-effectiveness-concern are possible concerns for differential bank groups. Finally, a sustainability concern postulates the necessity of transparent governance, social performance measure, client social and financial self-empowerment vision, funding capital diversification, product standardization, long-run and short-run needs consideration, and good partnership. Overall, it holds significance not only for Bangladesh but also for less developed financial markets and institutions globally.

"If the poverty of the poor be caused not by laws, but by our institutions, great is our sin", wrote Charles Darwin. Bank as an institution, especially a rural bank in India has always been considered as a 'Messiah' in the national agenda of poverty eradication. This national assignment they did with a lot of zeal, post nationalisation. Even in the era of liberalisation and privatisation, banks could not deviate but rather innovate what with the new concepts and ideas of micro-finance financial inclusion, and the new philosophy of inclusive growth. Now the government and the Reserve Bank of India are pushing the concept further with the new programme of "Pradhan Mantri Jan Dhan Yojana" – which aims at removing financial untouchability, and the financing of landless farmers under the "Bhoomi Heen Kisan" scheme" (Hans, 2015).

2. Understanding Financial Inclusion

Financial inclusion is defined as the process of increasing access to affordable financial services, which include, but are not limited to, the availability of banking services, savings capabilities, insurance, and loans, particularly for those populations currently unserved by the formal banking sector (MARIMUTHU et al., 2015). It is an essential requirement of a healthy financial ecosystem as it extends the reach of lenders to low-income individuals and households in a sustainable manner for business growth and social stability. Financial stability rests on a country's bank-led capital allocation, economic development, and social cohesion, which are the results of efforts made by banks in creating and sustaining an effective banking environment towards financial intermediation of their services to both financial inclusion and financial exclusion segments of the population.

Through extensive rural outreach initiatives, such as establishing a large network of branch offices, offering a comprehensive array of affordable rural banking services, rural deposits mobilization, positive rural profitability, and more, commercial banks actively engage in financial inclusion. On the other hand, microfinance organizations complement these government efforts to increase financial inclusion by lending capabilities accumulated through financing rural SHGs with a microlending, group, and repayment philosophy for sustainable rural development. Poor people typically constitute 65% of the population in developing countries, with a median income of less than $2 per day. Financial exclusion is exacerbated by a lack of local formal lending institutions and inefficient lending by existing ones.

Budget constraints prevent national governments from establishing rural banks to cater to poor needs, while market constraints render state-run institutions incapable of lending locally. The banking sector retaliates by exclusively serving the ‘golden customers,’ that is, upper-income segments in the ambit of maximum government interest rate and returns on deposits. On the other hand, market constraints create openings for poor groups to access rediscounting facilities through informal money lenders, enjoy unregulated pricing, and fall prey to debt trap. The government exerts pressure on banks to move down to poorer segments with the aspirations of lenders to provide social justice to downtrodden populations.

2.1. Definition and Importance

Financial inclusion is defined as easy access, constant and intensive use of a full range of affordable, appropriate and suitable financial services on behalf of all segments of society. Financial exclusion refers to a situation in which lower income classes, persons aged 18 or under or over 65, and disabled persons or others are unable to access financial services. Nevertheless, access to bank accounts, microfinance and proper credit or insurance facilities is important to avoid poor family welfare and over indebtedness (Isabel Pavón Cuéllar, 2018). Easy access to financial services enhances the capacity of savings and expenses of the vulnerable section of society and ensures secured economic status in the society. Financial inclusion is measured by the numbers of loan available from banks and other sources, ATM service availability, the number of monthly loan installments, accessibility of micro ATM, mobile banking, the number of banks in localities, local bank branches at union level, agricultural banks and credit unions, monthly saving or checks to the banks, and insurance and remittance from abroad through banks. It is all types of financial services that are provided through organized banks and institutions to poor families, women, and the unemployed such as bank accounts, loans for self-business, accidental insurance, group insurance, housing credit, and daily saving check facilities (Chakraborty, 2018).

Financial inclusion helps financially excluded people to get rid of randhsallar (money lenders). It also helps the lower and poor section of society manage human capital for better fertility and health through education and other activities of social capital by political inclusion and civil engagement facilities. Financial inclusion helps eliminating poverty and ensuring economic security and proper empowerment for women around the world. It improves the standard of living and social status of people. Financial inclusion helps them cope with sudden income shocks, improve home conditions, ensure better education for children, inherent a financial asset and proper health foods for the vulnerable section of society. Financial inclusion helps operate social enterprise, ensure social capital for family businesses and women welfare, and increase peaceful employment opportunities. Provider banks of financial services pool savings for investments that raise the scale and productivity of the poor, ultimately contributing to economic development and employment generation.

2.2. Global Trends in Financial Inclusion

According to 2020 World Bank data, 1.7 billion adults are unbanked. Understanding the barriers and incentives to access and use a financial institution is important for effective financial inclusion. The 2017 results showed that in developing economies, even though the gap in the use of financial services was narrowing, the overall percentage of adults accessing an account at a financial institution remained substantially lower than in advanced economies (Isabel Pavón Cuéllar, 2018). These trends shape the future of the market for greater financial inclusion. The standard definition considers financial inclusion as universal access to a wide range of quality financial services at affordable prices. Solutions, especially to expand access to services, leverage technology for social intermediation through networks of local agents. While demand-side assessments recognize that social intermediation is necessary to enable supply-driven access strategies to take root, all these solutions represent a new type of banking paradigm. They will benefit from a common design and implementation architecture to lower costs and enhance the prudential and business incentives for the major players to engage with this type of offering.

At the Nairobi 2019 Annual Meetings, a digital-finance and social-intermediation stock-take was requested from the World Bank – with a focus on finance in some form of institutional engagement with customers. This term is preferred to 'account' in order to include non-banking institutions and new financial services of varying forms. The resulting report was to synthesize the relevant global knowledge on state-of-the-art socio-technical systems, technologies, products, and services; build on this knowledge to produce a design and implementation architecture for this type of offering; and conduct brief case studies of formal systems in operation or under development in the field, paying attention to implementation issues of low-income contexts for developing economies. The report presents the first two deliverables, while the case studies are being finalized for publication separately. It first scientists the key conceptual and technical issues for the design and implementation of social intermediation in a way that is clear, consistent, and can be widely implemented by local practitioners and contexts. It then surveys the social intermediation protocols and features of various institutions internationally, ranging from large-scale banks to community-based and decentralized ones, with a focus on those successfully scaling and inclusive of low-income contexts. Broad lesson-tuning designs, specifically institutional primitives, procedures, and supporting technologies for effective social intermediation, is distilled from this.

3. The Concept of Social Intermediation

Many aspects underpin social intermediation: the client selection process; literations which range from financial literacy to negotiation skills; conventions which allow the transformation of passive partners to active clients; and the design of products themselves. The banks have some social intermediation experience; however, they sometimes prefer to simply adjust the documentation requirement for loan products. There are even examples of just adding savings accounts to loan agreements as requirements for loan client precision.

Social intermediation is a proximate platform which allows the clients to reach formal financial services that a similar type of institution provides. Audiovisual media, sometimes supplemented with shadowing by clients of the banks, are used to provide information on the products and gravitas of the banks, particularly on the credit risk charges which were not hyperbole. It includes advice on negotiation tactics. Subsequently, ceremonies are held to match bank representatives to prospective clients. The presence of a descendant and the persistence of confederate/factions visible in monthly meetings assists directly in negotiations as well as lending conditions. Words of consent, written signatures or mere footprints suffice for documentation (Antonio & F. Nugraha, 2013). The costs of clients being matched with participants attending a banks chanting, and the length of waiting list for the banks, are proxies of intermediation success. These could range from USD 1.5, for a city-based bank; to USD 2,500, for a Jakarta-based bank with minimal complaints.

Client organisation and training partly reflect the pre-existence of active groups of clients, the clientele's cognitive distance to formal banks, and the types of bank product. Technically, they are either individual or group lending products; but based on cash flows, they resemble housing loans and microloans respectively. Treatment is more extensive for the latter, while refinancing or repayments in advance are offered for the former.

3.1. Definition and Key Principles

Financial Inclusion has been defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial inclusion is also defined as the availability of banking and payment services to the entire population without discrimination at an affordable cost. Financial inclusion has become a popular issue among the Government agencies in various countries, State Financial Inclusion Mission (MARIMUTHU et al., 2015), State Finance Commissions, NGOs, Commercial Banks, Cooperatives, Micro finance agencies and Banks and Non-Bank Financial Intermediaries etc. It was the objective of the present paper to discuss the efforts towards financial inclusion of the banks in Tamil Nadu and to identify the hurdles for financial inclusion on the part of banks. This paper was based on both primary and secondary data. A sample of 86 branches of commercial banks was taken for analysis using a structured interview schedule. The data were analysed using Statistical software. The Financial Inclusion Index was constructed to assess the extent of financial inclusion. To find out the hurdles on the part of banks, factors were extracted using Principal Component Analysis. The Government of India and the Reserve Bank of India have played a big role in establishing banks and financial infrastructure to increase access to quality financial products using various regulations and incentives. The public sector banks were established to play a big role in this ensuring that credit was made to the priority sector. These institutions were provided with cheap source of funds and access to deposit mobilisations from Government funds and incentives to open branches. A critical aspect of access to banking products and services is the ability to save. The lack of awareness, illiteracy, unemployment low income status and social exclusion are major hindrances for financial inclusion. Some alternative measures may be maintaining good relation between financial institutions and rural inhabitants, building strong links between financial institutions and rural-based institutions, initiating motivational training for the workforce.

3.2. Role of Social Intermediaries

Saturn for Banks. People's trust to banks towards customers formed in a fragile manner. It means enough collateral is given on the basis of a capitalistic rule. Regulatory costs too high. The social cost of creating required network high and devising strategy to have small borrowers make it to become "good" borrowers great. Alliance Network, with the existing "good" borrower as the social intermediary makes it possible. The "good" borrowers share their experience, good faith, repayment discipline, and successful ventures. Then such borrower becomes the de facto local co-op chairman. Making it even worse, supporting infrastructure hard for banks, yet crucial.

The alternative view of the river of lenders to the poor based on moral and ethical considerations. Loosely speaking, difference between micro credit and micro fundraising. Pre-existing merchants, traders, and savings groups, networked with pre-existing poor borrowers. Banks too trusting their broker based on the fact supplying easy to sail small credit. Eco sufficiency overcrowded. Except once offered a sweat equity based on recent loss, MFI won't be able to survive. Shoelace MFI can leverage from own savings to supply a solvency, but collapse. Social Intermediation Community Empowerment.

In Islamic financial products and service developments are justified by compliance products and services as compulsory requirements. There is widespread expectation that equity financial products would enhance the social welfare of the community, particularly the poor in Sub-Sahara Africa. However, the continuous poverty problems of the target group, the poor in this region, urge for another important concern of banks. Experience in tapping the poverty alleviation market through so-called social intermediation scheme and financing emergence. Initiatives of social intermediation programs have revealed a befriending scheme, financial product adaptation, borrowing group membership, moral persuasion mechanism, less risky social cost, greater benefit products.

4. Banks as Catalysts for Financial Inclusion

Considerable development across the globe has not been able to eliminate poverty from the lives of a large number of people. This group of people is called the poor, who survive below the poverty line defined by the . With some savings or low income, they try to minimize their expenses and protect themselves from sudden income shocks. However, when financial troubles arise, people search for extra income to fuel expenses due to emergencies. They sometimes have to sell their assets, while some others contact relatives, friends, and neighbors to borrow cash payments. As a last resort, they take loans from money lenders, shopkeepers, or other non-institutional sources, who charge exorbitant interest rates . Due to undisciplined and speculative savings and expenditure, the financially excluded cannot stand up and maintain their livelihood. If no help arrives, they sometimes have to commit suicide or have to lose their children to prevent their own death from starvation.

This is how the poor are being trapped in a vicious cycle of poverty. The poor need people's help, such as access to regular well-designed savings and credit programs with low rates of interest, regular payment schedules, correct installment amounts according to income capabilities, and above all, formal institutions that can ensure access. People with access to formal financial services are organized and savings organized, wise and disciplined in savings or credits in a timely fashion, and live in a well-planned house with access to safe drinking water and sanitary latrines. Access to formal financial services is the golden key to escaping from exorbitantly charging high-interest money lenders, which is the prime business of all unofficial, traditional institutions. Financial inclusion is therefore the absence of some barriers that exclude people from access to financial services. Moreover, it is a major input to ensure economic growth and for the development of routine life, freedom of choice, and political rights.

Due to on-time intervention, planned management, and rapid development, some miraculous changes can be achieved; for example, access to credit doubled from 8 to 15 percent, commercial bank credit to agriculture quadrupled during 1987–98, the agricultural GDP growth enhanced drastically from 2.5 to 4 percent in the nineties, and the formal financial institutions were able to include about 42 percent of the rural population in Bangladesh in the formal economic network. is responsible for formulating and regulating the monetary policy in Bangladesh and aims to help create and maintain a robust financial sector in Bangladesh.

4.1. Innovative Banking Solutions

Financial inclusion is the availability of financial services at affordable costs by all segments of society, which is the powerhouse of economic growth (Chakraborty, 2018). Economic growth in which financial services remain out of reach for the bottom strata of society will always be uneven; hence, financial inclusion will be the prime focus area for promoting inclusive growth. The primary objective of financial inclusion is to provide necessary financial services to the general mass through different financial institutions. The goals of financial inclusion are to ensure access to financial services for the poor and economically vulnerable; increase household savings capacity, promote investments in the economy, create social/financial awareness, mitigation of risk shock, mobile electronic banking services to avoid the risks of holding cash and protect the cash from theft and robbery, and sustainable growth of the economy (Boshkov, 2019). Usage of various formal financial products and/or services for savings, investment, remittances, and consumption is formally included in the financial system. To this end, the government, NGOs, and financial institutions engaged in various financial inclusion activities, protests, and programs to reach the government. Financial inclusion should be available in easy products, easy process, easy access, and easy in use. Keeping this into view, the ultimate aim of this academic work is to identify the extent of access/use of formal financial products and challenges faced by the society. To achieve this, both primary and secondary data have been used. Primary data have been collected through a questionnaire considering two categories of people; one who had access to formal financial products and one who did not have access to formal financial products. On the basis of primary survey and pertinent literature, several recommendations have been offered to reach the government. Financial inclusion is a significant and basic requirement for economic growth and poverty alleviation/an economic growth pair. To alleviate poverty through financial inclusion, the Bangladeshi government has undertaken various programs and regulations through other government, semi-government, and private organizations at different tiers to promote banking activities and reach the government that enables the government to escape disaster zy.

4.2. Microfinance and Community Banking

The model of microfinance most widely in use today was developed in the 1970s by Dr. Muhammad Yunus and the Grameen Bank in Bangladesh. Dr. Yunus began making small loans to women who sold street food. The loans were made from his own pocket, to explore a new way to lend to the very poor, on a peer group basis and with strict enforcement (M. Baydas et al., 1997). In the first years the scale of lending grew slowly. But in the 1980s with growing support from the NGO, the Grameen model exploded, yielding steadily growing rates of return, low default rates, and international fame.

Supply-driven programs have been created for state-owned banks to lend on such terms, to urban and rural financial institutions to make loans to the private sector. Most of this funding has gone to large-scale enterprises. Financial systems have long been narrowly interpreted that made credit available only to: businesses with proven ability to repay loans, currently irrigated or perennial pastures, agricultural crops with high market price. The particular needs of small farmers and small-scale entrepreneurs have seldom been catered for. Consequently, the very poor have had no access to the formal banking system. They have turned to money lenders who rigidly control their loans and charge excessively high rates of interest, leading them into a vicious cycle of indebtedness from which they cannot escape.

Microfinance is the action of providing financial services to low-income individuals or those who do not have access to typical banking services. Micro-financial services are typically provided without requiring collateral in developing countries. The term "microcredit" is often confused with "microfinance". The term microcredit refers to loans that are typically less than US$500 to self-employed workers who have no formal credit history. Microcredit is a crucial part of microfinance, but microfinance also includes savings, insurance, remittances, and other financial services.

5. Technological Advancements in Banking

The financial sector is looking for new ways to provide services to the world's population. Since the beginning of the last decade, technology has been increasingly present in the financial industry (Fintech). Technology seems to have filled the gap in the inaccessibility of financial services, facilitating accessibility for all entities to financial tools and services at reasonable costs. Digital Payments, P2P, Robo-Advisers, and many more services have developed due to Fintech but while these recent and innovative services have changed the face of the financial world for many, there is still a huge unused portion of the world population, which does not use a bank. Despite the fact that unbanked countries are more likely to accept new technologies, the share of adults with an account has only increased from 38% to 60% between 2011 and 2017. Non-inclusive populations are nearly always poorer, less educated, more rural and earn less per month, hindering financial services access (Boskov, 2019). Additionally, the Financial Inclusion Index (FII) in these countries often lags behind the rest of the world. Nevertheless, banks play a key role in promoting online business. There is still a huge demand for e-payment schemes that can be provided only through banks. Banks act as strong and reliable intermediaries in online transactions. Currently, banks have electronic payment systems such as online banking, electronic funds transfer, plastic money and mobile banking. These systems enable the payment of online transactions such as online product purchases, hotel reservations and insurance payments. In order for this to happen, it is necessary to have the appropriate infrastructures, which is an inevitable feature. So, the need for physical bank branches cannot fully vanish: there are many services that require face to face interactions, however these transactional services can be met through electronic means. Also, with the significant increase in the penetration of mobile phones, it can be hoped that Mobile Banking will be an alternative channel of communication for users who may soon generate significant traffic volume.

5.1. Digital Banking and Mobile Payments

Technology advances in the financial sector (FinTech) seem to have filled the gap in the inaccessibility of financial services. Virtual Banking based financial services can help enable a percentage of the population to access services where traditional banks do not exist or are struggling to provide services. The expansion of different channels through which financial services can be provided has created a multi-faceted, bilateral relationship between banks and customers that is steadily shifting the bank-customer structure. The reduced costs and immediate transactions shown by telecommunication providers’ mobile payment system lead to a challenge to innovation in products and delivery mechanisms to achieve or maintain competitive advantages. Banks visit and regularly use a range of mobile payment systems, but there may be shocks to their standard financial services and income growth shall slow down due to the fierce competition in a new era by aggressive mobile operators (Boshkov, 2019).

The financial sector is constantly striving to find new ways to provide financial services to the world's population, and recently this was taken a step further as financial sources look to find out the leveraging of technology in new and innovative ways to provide financial services even to far flung areas of the globe, specifically, Fintech. The increase in Fintech seems to have filled the gap in the inaccessibility of financial services. Digital Payments, P2P, Robo-Advisers and many others are just an example of the development of Fintech. However, while these innovative, banking independent services have changed the financial world, a huge unused portion of the world's population remains non inclusive. Banks play a key role in promoting online business. Although e-buyers have the possibility of cash income, there is still a need for e-payment schemes that can be provided only through banks. Currently, banks have electronic payment systems such as online banking, electronic funds transfer, plastic money and mobile banking. These systems enable the payment of online transactions, such as online product purchases and hotel reservations. The need for appropriate infrastructures is an inevitable feature. With the significant increase in the penetration of mobile phones, Mobile Banking can be allowed to play a significant role in the pressure for financial inclusion.

5.2. Blockchain and Fintech Innovations

By 2030, it is anticipated that up to 40 million adults throughout the world will have a bank account. Fringes of the economy – like women and low-income people – without access to banks – are being stripped of their ability to save or invest (Rahman Aleemi et al., 2023). In their absence, it is nearly impossible to move beyond a cash-based society, organize business venture start-ups, and fight poverty's corrosive effects. The foundation of economic prosperity and sustainability lies in promoting broad-based achievement of SDGs and reducing the constraints impeding the majority's access to finance. No small progress towards eradicating poverty has been made without expansion of access to savings, payments, and credit services. The pursuance of FI is a concern of G20 nations, as one of the eight G20 goals for the duration of the French presidency in 2011-2012. Without improved creditworthiness, developed and developing economies alike have experienced negative house price movements. Substantial linkages between bank lending and bank and firm balance sheet networks have been highlighted through empirical analysis. FI, defined as individuals' access to and use of financial services, is regarded as a key component in expediting economic development through investment in education and health.

The achievement of many SDGs can only be enabled through a well-inclusive financial sector. G20 nations have identified FI as an important pillar of the agenda for global development. Food security, women's empowerment, and financial literacy will not be predominantly achievable without the basic financial services creation through FI. The current COVID-19 crisis also reinforces, more than ever before, the urgency to intensify efforts to bridge the global fintech divide. Responsible Fintech will enable financial institutions to offer meaningful, affordable, and transparent services to underserved people worldwide. Widespread efforts are bearing fruit, as the rapid uptake of fintech tools has provided the world's least banked people with financial access for the first time. Countries that did not grow with banks are leapfrogging to a digital-purse-driven economy, particularly with the advent of the era of Coin.

6. Regulatory Framework and Policy Initiatives

The objective of financial inclusion is now a global issue. Moreover, bringing 2.5 billion people across the globe into financial services is a big ongoing challenge. The United States' Reinvestment Act instructed all banks to offer credit in order to promote financial inclusion. In 1998, the government of the United Kingdom constituted a financial inclusion task directly engaging the monitoring of financial inclusion initiatives. In 2003, the government of India formed a commission to boost the financial inclusion drive in the country. In 2012, the parliament of Argentina directed to its central bank to frame policy and initiatives to enhance financial stability. Over decades, the government and Bangladesh Bank have been implementing numerous policies and regulations to boost financial inclusion in Bangladesh (Chakraborty, 2018). The government established the Bangladesh Rural Development Board in 1982 for poverty alleviation in the rural economy. To include farmers in the financial system and improve their economic condition, subsidy schemes were emphasized by supporting cooperative societies, Krishak Unnayan Bank was set up in 1987, and Bangladesh Krishi Bank has been focused on the agricultural sector. The decisions of the government to privatize Pubali Bank and Uttara Bank in 1985 were also intended to enhance the poverty alleviation effort. The governments started managing their gratuity payments through banking systems since 1994 under which Gratuity Ordinance was promulgated and other government institutions also followed this. The government of Bangladesh formed The Poverty Alleviation Fund in 1996 for zero-interest investment to the poorest of the poor through microcredit. Over the last few decades, the Bangladesh Bank has implemented a number of laws and regulations to boost financial inclusion (Joseph & Varghese, 2014).

6.1. Government Policies Supporting Inclusion

Innovation and regulations encourage the development of solutions that aim to connect low-income individuals to previously unreachable services. Given the framework conditions, different players build competitive services, costing less than traditional bank-to-cash services and offering higher-value products over time. Financial inclusion is defined as access to formal financial services such as savings, payments, loans, and insurance. Social intermediation connects the poor to that financial inclusion by supporting their financial literacy and capacity to use such products by forming groups, assessing creditworthiness, and/or monitoring repayments. It is suggested that poorer sections of the society are less willing/able to adopt the transactions that formal providers require for bi-directional relationships. As a consequence, many MFIs act as social intermediaries, monitoring repayments, assessing creditworthiness at low costs, and providing social collateral as its side service. Schemes are less attractive as credit client bases grow above a certain amount and reallocation to banks becomes costly.

Banks' retail acceptance of lower-income clientele is useful for opening-up a large untapped market and for offering an alternative segmentation dimension for soundness and reputation considerations. This is used to suggest that the provision of basic financial services and openness towards lower-income people are sometimes complementary strategies for financial institutions, including banks. Within and above this mainstream provision/adoption horizon, preventing the replication of fast-growing yet predatory debts, regulation does actively shape the terms of access to financial services. For both incumbent and potential providers of this kind of access, the product's modality is regulated by a combination of general banking regulation and specific regime designs.

6.2. International Guidelines and Standards

Promoting financial inclusion and social intermediation is crucial in addressing the lack of access to formal financial services for those in poverty. Governments and relevant authorities worldwide have initiated numerous social banking programs to effectively promote financial inclusion and social intermediation. However, the approach is still very new and evolving in Bangladesh. Unlike traditional banks, social banks target unbanked people living in rural and remote areas. They offer innovative low-cost banking services for savings and credit through agents instead of branches, promoting financial inclusion and social intermediation by providing growth capital for long-term, sustainable investments in small clients. Managing risk and establishing the credibility of poor people in general is a huge challenge. Preserving the new, socially motivated bank agents is another major challenge.

Promoting inclusive financial services and institutions is the responsibility of governments or the authorities in recognition of their role in wealth creation, employment generation, and poverty reduction. Regulators should make an active effort to promote equitable access to financial services. Consumers have the right to protection from socially harmful financial products. Governments can support programs involving affordable financial services that would benefit the poor or disadvantaged. International guidelines and standards are very important to proactively or reactively influence policy changes in any country. Several international initiatives aim to empower disadvantaged people by promoting access to formal financial services. Many of these initiatives arise from recognition of the link between poverty, disadvantage, and financial exclusion. Others arise from the need to enhance consumer protection in the financial services sector (Chakraborty, 2018).

7. Challenges to Financial Inclusion

No study is perfect. This study is not an exception. Currently, Bangladesh Bank is working on understanding the data of banking participation in this country. So, there is no organization to provide valid data on banking participation in the country. In many places, reliance is put on surveys, but interviewing vulnerability directly may itself lead to bias. In this situation, the second best solution was offered by relying on surveys conducted by reliable and globally recognized organizations – .

28002 as new plastic cards have been added in the latest fiscal year, while the digitization of financial services is proliferating in all divisions. Awareness of the different services the banking sector can provide alongside digging deeper into the financial service by removing the barriers in accessibility is also growing.

The absence of any hard-core condition like holding securities for borrowing against traditional collateral is also helping many recipients like poor women, farmers or small traders who depend on informal sources. All these are the fruits of institutional promotion and strong political commitment, which have to continue to get the other half unbankable (Chakraborty, 2018).

It is of paramount importance to attain the vision of making Bangladesh a middle-income country by 2021 to take into consideration this 98 million unbanked population, as producing clean, dependable and competent human resources is the most potent tool for sustained socio-economic development. The role of the banking sector to this end is highly critical because the absence of feelers of formal private driven inspirational funding can waste away this huge dividend. The benefits of an unbanked society remain unconverted in social well-being as it continues there with high borrowing interest and without any credit history which is influential in availing ordinary banking services.

7.1. Barriers to Accessing Banking Services

Though access to banking is one of the cornerstones of economic empowerment, it is not available equally to all. There are several barriers that make it difficult for certain populations to avail themselves of banking services. These barriers are divided into four categories, namely, physical, legal, financial, and social. The physical barriers, like geographic distance and infrastructure, can be diminished with the help of technological advancements. For a bank, the relationship with a customer starts only after opening a bank account. The customer has to execute KYC before getting an account. However, in most countries, the legal barriers prohibit many prospective customers due to the specified eligibility to open a bank account (Chakraborty, 2018). The fee for opening an account, as well as the minimum balance required to be maintained, creates a financial barrier for many new customers. Some people have a native distrust against banks. Banking services are also perceived as a luxury.

Many banks have websites and mobile applications, but they are either not user-friendly or not inclusive enough. The relationship of local banks with the unbanked population should be well categorized straightforwardly. Corporate social responsibility is just an excuse to operate financially easier to approach services to the local population. Social services like cash disbursement for the removal of extreme poverty should also be an opportunity for the local bank authorities to reach out to lower-prospective customers. It should be ensured that educating local and aspiring-to-be-banked population is also a social service that banks should devote their eligible officers and trained resources to. Banks can provide a KYC learning session at mosques and local community places on Friday. Community lessons could yield closer relationships with the unbanked and lower-earned population and an extra source incomes source for enhanced priority banking status.

7.2. Financial Literacy and Education

Globally, financial literacy levels are low, estimated at 28% for adults and 23% for youths. In 2021, 69% of adults were covered by at least one financial institution globally while in South Africa adult population's financial inclusion, usage and access to financial services were 65%, higher than the average growth rate of Africa. Financial literacy in South Africa is extremely low and studies indicate a strong relationship between financial literacy and financial inclusion, effective use of financial services and financial well-being. Affecting access, usage and constraints in availability of financial services, financial literacy is the ability to make informed decisions with a range of financial products and services. A measure of awareness, knowledge, skill, attitude and behaviour for sound financial decisions, it is a process by which financial consumers acquire a better understanding of financial instruments, products and terms. Financial inclusion is a measure of access, usage, and quality of financial services. Different definitions of financial inclusion exist, with the World Bank defining it as the proportion of individuals and firms that use formal financial products and services, and according to CGAP, it is estimated that more than 2 billion people globally do not have bank accounts and that poor individuals largely rely on informal services such as moneylenders, grocery shops and savings clubs. Recent priorities have placed financial inclusion on the development agendas of various international organizations, and it is believed to be a key enabler of inclusive economic growth and reduction of poverty (Kamanga, 2018). Similar to access, use of financial services implies that the access has had an observable effect on the financial well-being of an individual. However, studies show that financial inclusion (access and use of financial services) without financial literacy (knowledge and ability to make proper financial decisions) has little or no impact on the financial well-being of individuals (Chakraborty, 2018).

8. Case Studies of Successful Financial Inclusion Initiatives

In 2012, the Reserve Bank of India (RBI) established a dedicated branch for financial inclusion and developed a comprehensive strategy for expanding banking service in rural, unbanked locations. Under the guidance of the branch's directorate, all bank directors began to develop annual financial plans for their respective regions. In a technical collaboration with the United Nations Development Programme, a new computerised Financial Inclusion Data Management System (FIDMS) was established, enabling the gathering and publication of financial inclusion information at all levels of the banking sector. The Reserve Bank also established new banks in 2014 and 2016 to serve unbanked villages. The National Payments Corporation of India was established in 2008 to oversee the real-time computerised international money transfer system and respond to a dearth of services. In 2014, the government launched the Pradhan Mantri Jan Dhan Yojana programme, which offered bank accounts and insurance to the most economically disadvantaged households with households (Kumar Chattopadhyay, 2011). In Bangladesh, the managing directors of 12 banks introduced a medium-term strategy to improve financial inclusion in 2011. Under this framework, banks showed a strong commitment and attempted to develop an integrated banking service environment for financial inclusion. Bangladesh Bank, the country's central bank, has also played a pro-active role in establishing numerous policies to promote financial inclusion over the last several decades. Banks are continually attempting to market their products by employing a variety of promotional and marketing activities. Bangladesh also has another financial institution, known as NGOs, which provides microcredit to women entrepreneurs for their earnings and empowers them in society, thereby alleviating poverty and ensuring social security, development equity, and financial justice (Chakraborty, 2018). Efforts by various government administrators and deposit financial institutions resulted in a majority of citizens being served with some banking products in Bangladesh.

8.1. Global Examples

From the study, it was determined that social intermediation promotes savings, investment, and financing of income-producing activities in diverse impact assessments of informal savings in developing countries. The poverty alleviation program of the project for the women of low-income groups through self-managed group savings and consumption schemes in Hyderabad City, India, was evaluated. The project was planned to develop income-generating activities among the women of improving hope for the future by increasing savings and empowerment through group decision-making, which provides consumption smoothing, reduced borrowings, bigger savings, effective utilization of bulk savings, gradual increases in the asset, maintenance of regular accounts in the book, and building of social intermediation among the participating group members. Housing improvement, educational expenditures, and debts were comparatively more amenable to households safety nets and borrowing agency, by which women’s collected funds provided through this scheme contribute a lot to improve poverty alleviation and shock coping mechanisms.

The promise in preventing child neglect and improving school attendance was explored from the impact evaluation of a community-based credit union in a recently completed program with grass-root initiatives channeling help to members to improve labour productivity among the poor for self-defending against shocks, dissipating the habit of borrowing from moneylenders, building a strong sense of social solidarity among the poor, greater self-advocacy among the poor, building community infrastructure, and improving education and health situation to an extent. From impact assessment on the savings and credit programs among women’s and children’s pioneers in behavior change communication practices, a plan of enhanced varieties of community-based health services, and healthcare financing partnerships for the administration structures was launched to facilitate self-help groups for improving business management capacity of food processing enterprises and group savings and loans funds and supplies.

8.2. Local Success Stories

From early 1999, a substantial, multi-stakeholder movement for the poor's access to financial services has been consolidated in Bangladesh. An analysis on poverty-related issues would inevitably reveal the alarming growth in poverty in Bangladesh. That prompted an early government-sponsored microcredit programme aimed at women to address poverty issues. Bangladesh became a top-of-globe impressive story when Grameen Bank was awarded the Nobel Prize in 2006 in acknowledgement of its contribution in microcredit, poverty eradication and women empowerment. Nevertheless, during the ensuing decade, no palliative action was undertaken to bolster the food security and employment security issues of the bulk of poor people who have never been borrowers of credit in any form. Despite significant economic growth, the condition of the mass poor has remained appalling, with their modest expenditure per head of 55.3 Takas (US$0.91) per day as compared to a price of 16 Takas (U$0.2615) for a kilogram of rice, a major staple food in Bangladesh. Disaster distress, agricultural risk, market risk, and health risk are major risks in this regard.

Finance is undoubtedly the life blood of agriculture and rural economy. It is also an essential element in the process of economic development of a country. Timely and adequate supply of credit to the rural economy plays an important role in raising agricultural production, expansion of irrigation, creating infrastructure, employment generation and improving living standard of the rural people. On the other hand, inadequacy and irregularity of credit leads to indebtedness and impoverishment of farmer families (Chakraborty, 2018). In Bangladesh, despite many efforts by both public and private sectors, the rural economy is suffering for want of sufficient supply of credit. There is a shortage of medium and long-term credit for development purpose. On the other hand, commercial banks are unwilling to invest in the rural sector mainly due to higher risks with agriculture and rural financing. The above situation prompted the government to establish Bangladesh Rural Development Board (BRDB) in 1982 to tackle the problems of poverty in the rural economy of the country.

9. Impact of Financial Inclusion on Economic Development

Mobilization and circulation of finance is the primary requirement of development of an economy (Joseph & Varghese, 2014). Finance is a potent instrument for the structural transformation of a slow-growing stagnant economy and for sustaining faster growth of a developing economy. To achieve the objectives of increasing the pace of exploitation of the resources of the economy, and for bringing about egalitarian income distribution, a multipronged and concerted approach is required. As a part of this approach, the Indian Government and the Reserve Bank of India have been making concerted efforts to promote financial inclusion (FI) on a massive scale as one of the important national objectives of the country. Financial inclusion (FI) is an apparently simple requirement of an organized financial system of an economy. But in practice, it is a tough task to achieve especially in a developing and stagnating economy characterized by low household income levels for a large majority of people.

Financial inclusion contributes much to the development of the Indian economy and there is further scope for achieving inclusive growth, since broadening of the resource base of the financial system through financial inclusion will certainly stimulate further growth of the economy. This flowed from the traditional view that a well functioning and inclusive financial system is linked to faster and equitable growth. Development of the Indian economy as per the development plans set forth by the Government of India is hampered by the inadequate mobilization and non-circulation of financial resources for a large chunk of the populace. The objective of financial inclusion is to extend the scope of activities of the organized financial system to include people with low incomes. Access to quality financial services includes other essential services such as savings accounts, checking accounts, loans, insurance, and financial literacy as well. The Bank Nationalization Act was amended in 1993 and in 1998. As per the Amendment Act, “within one year of receiving bank license, banks should open at least one rural branch in a place with a population of 2,000 and a banked grove sessile width of 4.3 descriptivities.” Recently a majority of banks signed-up to commitments made during the national Financial Inclusion Summit aimed at addressing blockages in providing the un-banked population with access to financial services.

9.1. Poverty Alleviation

Financial exclusion entails a situation where an individual or family lacks access to the financial services and products offered by financial institutions such as banks, insurance companies and cooperatives. This results in the inability of that individual or family to take part in the economic activities of a society and enhances vulnerability. It affects the capacity of savings and expense and ensures poor economic status. Financially excluded individuals face problems in savings and expenses of reliable instruments. They suffer from disaster shocks as they have neither savings to face it nor insurance to recover from it. Health shocks from chronic illness, unexpected illness and sudden death of family members become huge liabilities and their money can’t be recovered. The economic victory of government employees, teachers and other vulnerable sections of society is left beside unreasonable interest rates of money lenders. Attention of authorities is usually diverted towards better income sources rather than housing, medical treatment and empowerment. Many dealings are of small amounts but of continuous nature. So, access of even minimum formal financial services to the financially excluded persons can drive them out of the clutches of money lenders. The ability to access formal financial services is in the prerequisites of positive changes in the lifestyle of poor individuals. Financial inclusion means enabling the poor and excluded individuals and firms to have access to proper low-cost financial services in the local market (Chakraborty, 2018).

The objective of financial inclusion to provide necessary financial services viz. saving accounts, loan, remittance, transfer, insurance, etc. through different financial institutions has become a worldwide issue. At present, financial inclusion is as much important as that of macroeconomic stability, financial stability and all-rounded economic development for a stable and peaceful country. Even developed countries with highly developed financial sectors and inclusion feel accountable to monitor it. The United States amended the Reinvestment Act in 2000 to make banks offer credit facilities to promote financial inclusion. The parliament of the United Kingdom constituted a financial inclusion task to monitor its development. The Reserve Bank of India constituted a commission for boosting financial inclusion in 2004. The parliament of Argentina directed its central bank 'to frame the basic policies and practices to guarantee the financial stability and social development of the country' which includes the accessibility of financial services on equitable terms. Bangladesh, being a developing nation, has been implementing numerous policy packages for financial inclusion from multifarious angles and policy perspectives using rural banks, primary cooperatives societies, credit co-operatives, general co-operatives, producer co-operatives, agriculture co-operatives, dairy co-operatives, fishing co-operatives, deposit pension schemes, remittance and linkages with NGOs.

9.2. Empowerment of Women and Marginalized Groups

Women and marginalized groups have always been neglected in monetary, economic, political, and social spheres in our society. A significant lot of women, disadvantaged persons, the poor, and outcastes were completely excluded from the mainstream financial system. Gender equality is quite scarce in the developing economies of the World, including India. Women comprise the majority of the world's segmented people, and there is substantial inequality in India. Given that poverty alleviation is unattainable unless women access development resources, institutional credit, and financial services, it is generally acknowledged that putting women at the center of the financial system and social and economic development would have a multiplier effect (Yasmeen Sultana et al., 2017). Gender biases, traditional practices toward females, and inadequate government policies for women's empowerment and emancipation result in lower S.E.C.L.S. (Sex, Education, Career, Life style, Society) and social backwardness. This group is regarded as scum. Micro finance creates a historic opportunity for extending credit to the poor. In recent years, the microfinance industry has emerged as one of the fastest developing sectors in India, especially in the states of Andhra Pradesh and Tamil Nadu. More and more women are becoming eligible for credit as members of self-help groups. In spite of various positive aspects, microfinance has been criticized for its high rate of interest, over-indebtedness, and extra-legal practices adopted by M.F.I.s for loan recovery. Though there is a growing literature on microfinance's noble mission, empirical evaluation is scarce in social and economic terms since most scholars concentrated on the profitability aspect of these institutions. This study investigates the S.E.C.L.S. of women microfinance members before and after borrowing from M.F.I.s. A cross-sectional survey was conducted, and the data was analyzed using the ANOVA test to find results. The socio-economic impact of microfinance is analyzed using demographic variables.

Women are the center point of human societies representing the economic, political, cultural, health and family attributes. The exclusion of women would be an impediment to development. Given the vast level of poverty, it is generally accepted that putting women at the center of international development would unlock the potential of half of humanity and have a multiplier effect. Hence development is a multidimensional approach covering education, health, nutrition, income, poverty alleviation, rights, justice, participation in socio-political matters, and employment opportunities.

10. The Future of Banking and Financial Inclusion

Though commercial and parallel banks have a vital responsibility in contributing to financial inclusion via social intermediation. This holistic conceptualization looks at not only financial inclusion and the roles of their institutions but also the link that bridges financial systems to inclusivity. While Bank-centric and physical bank branches are thought of as key elements of constructive responses to the future state of banks, these have shortcomings unaddressed. To ensure constructive checks and balances between financiers, states, and a societal level infrastructure in the development of future banks and financial inclusion. In United Nations (UN) countries, the historical, political, and social setting may impose limits on the scope of the financial systems and their inclusiveness (Boshkov, 2019). These limit the vision of awareness that applies to a minority of nations, which for the most part function according to Western social constructs.

Banks face various challenges in achieving financial inclusion, including a lack of financial literacy, limited technology, an unempowered customer base, and insufficient collaboration between banks and microfinance institutions (MFIs). Lack of leadership in developing an inclusive financial ecosystem is especially dangerous. Several UN nations experience significant challenges. The presence of impostor solutions undermines the provision of inclusive financial services and assists in profiling and scoping designations. The porousness of institutional boundaries and the applications of lives as monetary flows and consumption data continue to expand the black boxes of valuation in ways that are currently too novel to comprehend and systematize.

The virtue of states providing agencies along with barriers to access generally creates situations for exclusion. Because of this, banks, states, and heightened collaborations between the two can instead threaten emergent futures or struggle to not to transgress thresholds and limits where exclusionary possibilities become actionable. Banks while working with MFIs, may overreach in extending credit limits to poor customers. Exclusion thrives on borders, agency, and porosity. In exploiting these they agree on policies and systems to control the vectors of finance and inclusion. Financialisation produces instrumentation based on the assumptions that control capability increases, the number of agency checks encourages empowerment, porosity mutualizes and subverts trust brackets, and borders degrade reach and income in monitor-compliance.

10.1. Trends Shaping the Future

The financial sector is striving to find new ways to provide financial services to the world's population. The vast majority, 42% of the adult population, does not use essential financial tools. This inaccessibility of financial services has been filled in by the increase of technology in the financial industry. Fintech has worked miracles in the financial sector, facilitating the accessibility of financial services to all entities at a reasonable cost (Boskov, 2019). Innovating services such as Digital Payments format such as Mobile Wallets, P2P payment via app, and Robo-Advisers and many others just are an example of the development of Fintech. While these innovative services have changed the financial world, a huge unused part of the world's population, which does not use a bank, remains. Banks play a key role in promoting online business. Unlike reservations for hotels and tickets, which can be paid by cash income, e-buyers need e-payment schemes provided via banks. Banks act as strong intermediaries in online transactions. Currently, banks have an electronic payment system such as Online banking, Electronic Funds Transfer, Credit and Debit cards, and Mobile Banking. All of these systems enable the payment of online transactions, such as online product purchases, mobile additions, hotel reservations, ticket reservations, and others. With the significant increase of mobile phones penetration linked to the potential Public Telephone System and the low cost of Mobile Telephony in India, Mobile Banking could play a significant role in the pressure for financial inclusion. Digital credit tools, specifically credit and loan apps have proliferated in India. The convergence of the mobile phone/credit/loan creates a new nation. This has led to easier access to credit, an improvement in the repayment rhythm, more people investing in the equities market, investment diversification, the growth of a new class of investors, deposit mobilization for various firms, etc. At the same time, it forces the regulators to catch up with developments in the fintech space.

10.2. Sustainable Banking Practices

The desire for sustainable banking emerges as an effective response to the deadly combination of low governance and market failures, which ultimately produces poverty traps. It aims to deliver social and economic performance stemming from operations across the Environmental, Social, and Governance (ESG) dimensions. A self-regulatory ESG stance taken by banks through associative activities contributes to the efficacy of compliance with social and environmental regulations, and their corresponding effects on financial inclusion and development. A strong case for the efficacy of sustainable banking as a suitable institutional response to countervail poverty and inequality traps is presented, but a number of market failures stemming from institutional weaknesses may hinder the desired effect. Sustainable banks can deliver economic performance despite their non-profit nature because they are able to reduce excessive risk-taking and generate trust that becomes an asset for transactions. By so doing, sustainable banking may countervail market failures such as the lack of trust, which may underlie the non-initiatives to promote financing economic opportunities on the part of governments and large institutions (Úbeda et al., 2022). This work contributes to the understanding of the connection between institutions and inequality in two consecutive sections. Some arguments on why low-inclination, poor societies and the rapid rise of inequality are captured in three market failures stemming from weak institutions, such as the lack of trust, high transaction and foregone investment costs. The counter-proposals for the sustainable banking systems and the inherent mechanisms through which they may cope with the market failures are also explained. A self-regulatory ESG stance taken by banks through associative activities and the working for mutual trust among them is concluded as a new and effective institutional alternative to traditional financial and social oversight schemes. A great deal of compassion has been poured so far on the emergency to support a world in crisis by providing societies with money or quick finances. These reactions have been effective in preventing an economic meltdown but have not solved the underlying reasons for poverty issues. Moreover, some predictions suggest that these issues might worsen with proposed systemic changes likely to distort again savings and the provision of credit (Stauropoulou et al., 2023).

11. Conclusion

Banking is the dominant form of financial intermediation in most countries. Banks are expected to promote financial inclusion and social intermediation in both developing and developed countries. This role of banks is more pronounced in countries where financial distress and poverty exist; nevertheless, banks in developed countries are also encouraged to follow a socially responsible banking model. The objective of this paper is to outline the role of banks in bringing about social intermediation and financial inclusion, taking the case of Bangladesh. Bangladesh is a middle-income country with a significant portion of its population still unbanked. The paper discusses the aspect of social intermediation where banks, irrespective of their type, are expected to help build social capital in society, which is mainly responsible for financial inclusion. Financial inclusion, on the other hand, is consistent with a narrower interpretation of the financial development literature, which is represented by banks expanding outreach over the poor on the liability side. Banks can take various measures to promote social intermediation, which is achieved by bringing about social capital formation in society. The possible measures that can be taken are briefly discussed at the end of the paper. The paper is written with a view to present the whole thing in the context of Bangladesh in particular and developing countries in general (Chakraborty, 2018).

This definition encompasses the multidimensional nature of financial inclusion, with access, usage and quality being basic forms of financial inclusion. It also comprises the distinct view of supply-side aspects of financial inclusion. One side of the coin is access to and usage of financial services by individuals, and this has been the wider focus of measurement efforts, particularly among international organizations (Isabel Pavón Cuéllar, 2018). The other side is the availability and outreach of the services offered by financial intermediaries. This reframe eliminates the previously implicit assumptions about financial inclusion being a given in the population, and points to the role of intermediaries regarding the supply aspect of financial inclusion. Financial inclusion also concerns the quality of the services provided, which is important for an effective promotion of financial inclusion and tackling poverty and inequality issues. With this construct, financial inclusion not only encompasses the levels of financial services usage and access, but also their quality. Quality is a fundamental aspect of financial services to be more inclusive.

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