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14. A Study of Financial Inclusion Programme of NABARD

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Abstract:

As a means to achieve quicker inclusive growth, India has recently taken a number of moves toward financial inclusion. The purpose of this research is to analyse the progress made by Indian states in achieving financial inclusion. Contrary to its forerunner notions, such as access to credit or access to savings bank accounts, which define financial inclusion in a narrow sense, financial inclusion (FI) is a multidimensional phenomenon. The development of an appropriate index is thus necessary for the measurement of financial inclusion. The true breadth, depth, and reach of digital financial service adoption should be reflected in the FI index. Consequently, we suggest NAFINDEX, which is predicated on field-level data from NABARD's All India Rural Financial Inclusion Survey and accounts for variations in household size across states (NAFIS). Using the three axes of "traditional banking products," "contemporary banking services," and "payment systems," NAFINDEX has been built for several states in India. Across the whole of India, the measure averages out at 0.337. The dimensions and NAFINDEX values vary from state to state. Modern banking products and payment systems exhibited greater values in several states with lower penetration of conventional banking goods, as shown by the respective dimension score. This demonstrates the path toward future banking expansion in underserved states.

Keywords: *Financial Inclusion, NAFINDEX, NABARD, SHG, NAFIS, Self Help Groups Bank linkage programme, Financial Inclusion Indexed.*

14.1 Introduction:

NABARD has played a crucial role in helping to establish rural social innovations and social entrepreneurs. NABARD maintains a network of 32 regional offices around the country.

SHG-Bank Linkage programme, Tree-based tribal communities' livelihoods initiative, Watershed approach in soil and water conservation, Increasing crop productivity initiatives through lead crop initiative, and Farmer clubs for disseminating information flow to agrarian communities are just some of the interventions it has partnered with around 4000 partner organisations to implement. Despite this, it is a major contributor to the government coffers, routinely ranking in the top 50 largest taxpayers. On their never-ending quest to find answers, NABARD practically reinvests all of their income in development efforts. Over the course of its 30 years of service to rural areas, the organisation had amassed a substantial quantity of social capital in the form of trust.[1].

a. When it comes to the growth of rural economic sectors like the cottage industry, small scale industry, village industry, and others, NABARD is the most important institution in the country.

b. In addition to helping its own economy, NABARD is actively promoting the growth of related economies.

c. Here are some of the ways in which NABARD carries out its mandate:

- Promotes a wide range of rural development initiatives by acting as a clearinghouse for the finance provided by institutions offering investment and production credit.
- Includes monitoring, scheme creation for rehabilitation, credit institution restructuring, staff training, and other actions aimed at enhancing the credit delivery system's absorptive ability.
- Its primary function is to act as a liaison between the central government of India, individual state governments, the Reserve Bank of India (RBI), and other national level institutions associated with policy formulation in order to ensure that all rural funding operations are coordinated.
- project it refinanced is monitored and evaluated.
- NABARD is a refinancing organisation for banks that provide funding to rural areas.

- In order to aid the rural economy, NABARD contributes to the formation of supporting institutions.
- NABARD also does audits on the institutions it serves.
- It regulates the institutions which provide financial help to the rural economy.
- With its state-of-the-art classrooms and labs, it serves as a valuable resource for organisations dedicated to improving rural communities.
- In doing so, it controls the financial aid institutions that serve rural areas.

The 'SHG Bank Linkage Programme,' sponsored by NABARD, is a well-known initiative that solicits loans from Indian banks on behalf of self-help groups (SHGs). Because SHGs are predominantly made up of low-income women, they have become a vital resource for microfinancing in India. This programme was supposed to connect 22 lakh SHGs, or 3.3 crore people, to credit by March 2006. In addition, NABARD maintains a variety of Natural Resource Management Programmes that use specific money to address issues including Watershed Development, Tribal Development, and Farm Innovation.

Initiated in 1992 by the National Bank for Agriculture and Rural Development (NABARD), the Self Help Group Bank Linkage project (SHG-BLP) is a historic model that has mostly achieved the declared goals of financial inclusion. This grassroots initiative seeks to provide rural low-income people with long-term solutions to their economic challenges. SHG-BLP began as a bank outreach programme, but it has since evolved into a comprehensive initiative to increase rural India's financial, social, economic, and even technological capital. NABARD was an early proponent of the savings and loan association (SHG) bank linkage concept, which uses SHGs as intermediaries to increase access to bank loans for low-income members. The movement has become the largest and fastest-growing microfinance programme and the most successful network of women-owned community-based microfinance institutions in the world. As it has evolved in India, the SHG-bank linkage concept has become a prominent example of microcredit around the world.[2]

The importance of financial inclusion in promoting economic growth and reducing poverty is becoming widely acknowledged. In addition to these advantages, financial inclusion (FI) also gives the poor a more secure method of receiving direct benefit transfers and a more secure means of establishing legal identity. Increased FI is seen as essential for long-term, equitable economic growth in society as a whole. However, the FI is really a means to an end—specifically, the attainment of greater stages of growth. The primary sector (agricultural and allied sectors) and The Micro, Small and Medium Enterprises (MSME) sector both have tremendous room for growth as parts of the economy. It is believed that a fundamental barrier to the growth impetus in these sectors is the inadequate access to inexpensive financial services, including as savings, loan, remittance, and insurance services, by the vast majority of the people in rural regions and the unorganised sector. It is commonly held that providing low-income people with access to finance and insurance opens up more chances for making a living and gives them more agency over their own life. Economic and political security are both bolstered by such empowerment.[3]

Why Financial Inclusion?

By encouraging savings habits among sizable portions of the rural population, financial inclusion contributes to economic growth in its own right. More importantly, low-income communities can better safeguard their wealth and assets by joining the official banking sector through financial inclusion. By expanding people's access to affordable, legitimate forms of credit, financial inclusion helps reduce the likelihood that vulnerable groups will be exploited by usurers.[4]

14.2 Review of Literature:

Academics and financial industry professionals alike have long been fascinated by the sector's impact on the economy. Goldsmith (1969)[5] was an early economist to investigate the connection between progress in the financial sector and overall economic expansion. Financial development, he showed, boosts savings in the form of financial assets, which in turn promotes capital production and economic expansion. To develop economically means to broaden out and strengthen one's financial infrastructure. Increasing the amount of financial services and institutions available per person or the ratio of financial assets to income are examples of financial deepening (Mihalca, 2007[6]), whereas widening refers to the development of financial services and the creation of financial institutions. It's essential for self-determination, getting a job, the economy booming, the poor being lifted out of poverty, and people coming together as a community. According to Singh and Naik (2014) [7], a shift in the mentality of financial institutions is crucial to the success of financial inclusion. Among the problems they've noticed are:

(a) Some parts will have to be implemented gradually over several years, and continuous monitoring will be necessary if Aadhar doesn't provide universal coverage.

(b) Having BCs stationed at gramme panchayats and integrating them with common service centres and government schemes is an important part of the Financial Inclusion Mission, which would benefit from a bottom-up approach with the assistance of panchayati raj institutions and local governments.

(c) The importance of teaching both bank customers and employees how to manage their money well.

(d) Banks had to be persuaded, on a commercial level, that offering adequate tools to unbanked households, especially in rural regions, is a viable business proposition with room for growth.

The FI index is built on a multi-dimensional structure that reflects both supply and demand. The authors Beck, Kunt, and Peria (2007) [8] distinguish between (1) having access to and the potential to use financial services and (2) actually making use of these services. The demand-side factors that Honohan (2005) [9] considered to be the impact of financial inclusion on household well-being and company productivity were product/service design (usefulness for the poor), cost, and information barriers to access. In addition, the following measures of financial access were used:

(a) Money transfers, both domestic and foreign, play a crucial role in the migrants' families who rely on their money.

(b) Activating financial reserves (deposit services).

(c) Keeping an eye on how the money is being spent (mechanisms for building credit worthiness)

(d) Risk Recasting, Number Four (Insurance etc.)

In 2008[10], a committee chaired by Dr. C. Rangarajan defined financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost." This definition captures the broader meaning of financial inclusion as a welfare-oriented measure to increase the availability and accessibility of financial services and products for all people. Financial inclusion was defined as "universal access to a wide range of financial services at a reasonable cost" by the Committee on Financial Sector Reforms, led by Dr. Raghuram G. Rajan. Offering a wide range of banking and non-banking financial services, such as payment processing, savings accounts, insurance, and pension plans that keep up with inflation is part of this.

However, the term "financial exclusion" describes the circumstances in which people are unable to access or make use of formal financial services. The problems might be as simple as not knowing how to manage money or as complex as not having access to a bank account. Physical exclusion, due to difficulties in accessing services; access exclusion, due to risk assessment processes; condition exclusion, when the conditions attached to products are unsuitable or unacceptable to consumers; price exclusion, when the price of products is unaffordable; marketing exclusion, when some consumers are unaware of products because of marketing strategies that target others; and price exclusion, when the price of products is unaffordable.

By contrasting the pre-SHG and post-SHG scenarios, Dutta, P. (2011) [11] investigated the impact of the SHG-bank linkage programme started by NABARD on poverty reduction and social empowerment. Examines the variation in state-level SHG-Bank linkage programme development across regions and within regions. This data demonstrates that due to the efforts of the Indian government, banks, NGOs, and SHGs, a larger percentage of rural citizens have access to the advantages of the contemporary financial system.

It was attempted in India after the nationalisation of banks (1969 and 1980) to implement preferential lending by banks to priority sectors and impoverished communities. A large number of credit institutions and easy access to credit were also made possible by the creation of specialised institutions like regional rural banks (RRBs) and the National Bank for Agriculture and Rural Development (NABARD) to serve the unique financial needs of rural and marginalised populations. There has been a dramatic expansion in the number of financial institutions and the distribution of credit to previously underserved areas as a result of the state's persistent policy intervention implemented alongside a repressive strategy (Tankha, 2015)[12].

14.3 Objectives:

a. Studies the relative importance of the indicators of financial inclusion.
b. develop a composite index of financial inclusion for each state in India.
c. Examined the degree of association between human development and financial inclusion
d. To study the status and Progress of Self Help group bank linkage programme in India.
e. To study the role & importance of microfinance in the context of NABARD.

14.4 Research Methodology:

Secondary data and information acquired from relevant sources are the sole basis for this study. This research makes use of books, articles, papers, websites, and records from numerous ministries, departments, and organisations.

14.5 Result & Discussion:

Access to financial services is critical for households for a variety of reasons including: creating a safety net, conserving money to combat inflation, preparing for the unexpected, and protecting themselves from calamity. Financial services are essential for household consumption and emergency situations.

There is a correlation between a country's level of financial literacy and the availability of financial services and products, as both are necessary for households to gain access to a wide variety of saving and investment products for the purpose of wealth development. Such household needs must be prioritised by financial inclusion policy measures.[13]

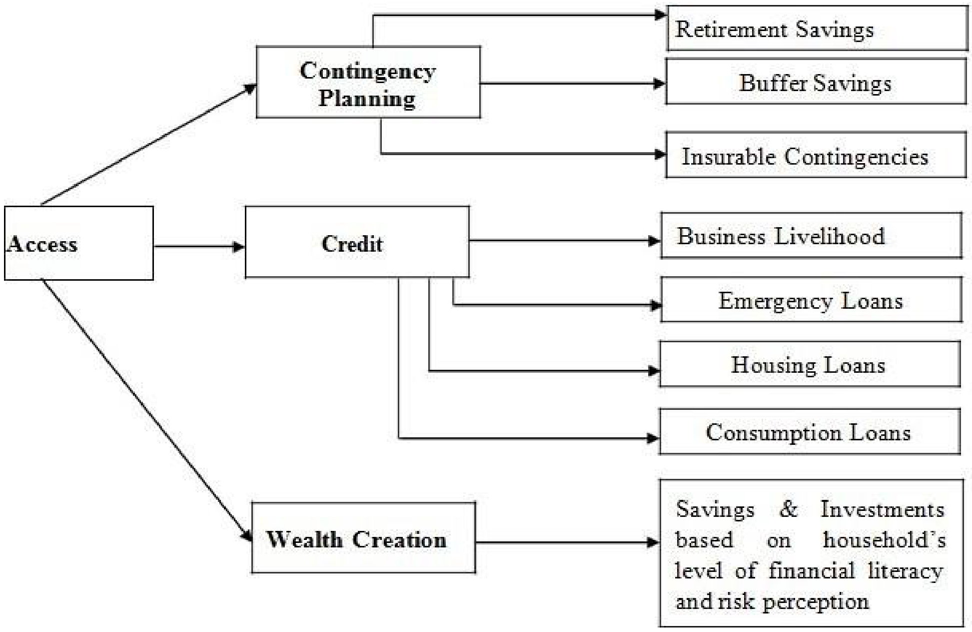

Figure 14.1: Household Access to Financial Services

There was a notable increase in the accessibility of banking services, most noticeably due to expansion of banking into rural regions (Chart 14.1). .[14]

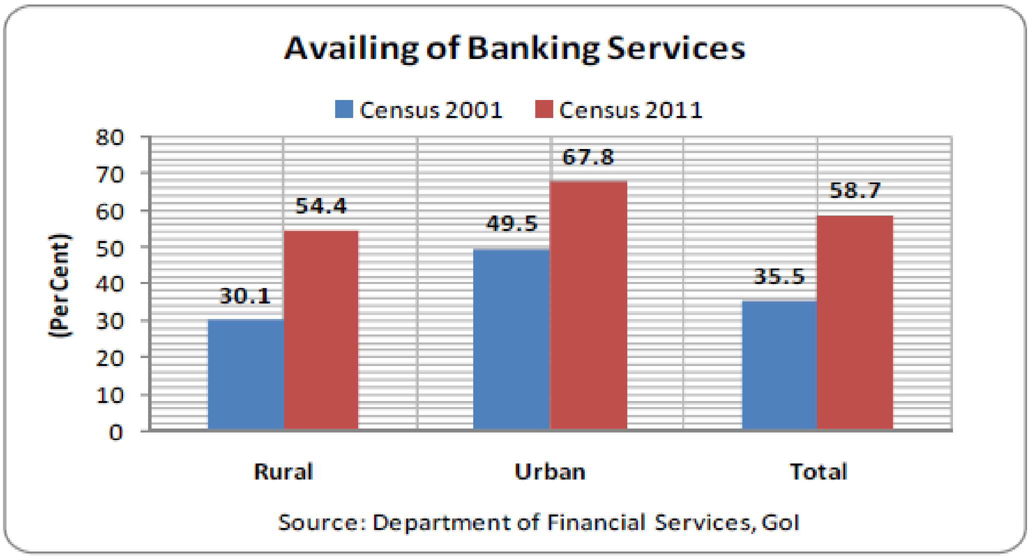

Chart 14.1: Availing of Banking Services

Table 14.1: List of the Indicators of Financial Inclusion

Indicators
Number of bank branches per lakh population aged 7+ year
Number of banks per thousand square kilometre
Number of Self-Help Groups per hundred poor population
Number of deposit accounts per hundred population aged 7+year
Number of credit accounts per hundred population aged 7+ year
Percentage of savings to net state domestic product
Percentage of credit outstanding to net state domestic product
Per capita Domestic Savings (▯ ‘000)
Per capita Loan Outstanding (▯ ‘000)
Credit deposit ratio (percentage)

This study used Principal Component Analysis (PCA) on the selected indicators of financial inclusion to ascertain their aggregate importance and to construct the Financial Inclusion Index for each Indian state.

Besides deducing the total weight of the arrows, this method also extracts a small number of unrelated factors, known as principal components (PCs), from a massive set of variables.

Kaiser Criteria eliminates Principal Components by focusing on components with Eigen values greater than 1, therefore discarding all but the most significant of these.

However, in the case of PCA without rotation, the eigenvectors may not centre the true states because they are not adjusted to the clusters of data. Aiming to become closer to the data set as a whole, the turned PCA techniques rotate the PCA eigenvectors.

Table 14.2: FII across States (Overall, Rural and Urban) and their Ranks using Six Indicators of Banking Outreach: [15,16]

of Banking Outreach						
States/Regions	Overall State		Rural		Urban	
	Index	Rank	Index	Rank	Index	Rank
Northern Region	1.13		1.28		1.18	
Haryana	0.91	15	0.88	14	0.99	12
Himachal Pradesh	1.07	10	1.43	4	1.27	7
Jammu & Kashmir	0.87	17	1.02	9	0.86	17
Punjab	1.14	6	1.35	5	1.11	8
Rajasthan	0.69	25	0.66	25	0.79	23
Chandigarh	2.99	1	1.88	3	2.10	1
Delhi	2.35	2	3.32	1	1.67	3
North-Eastern Region	0.68		0.98		0.80	
Arunachal Pradesh	0.68	27	0.88	15	0.58	31
Assam	0.71	23	0.77	20	0.83	21
Manipur	0.48	32	0.43	32	0.53	32
Meghalaya	0.77	20	0.76	21	0.89	16
Mizoram	0.80	18	1.00	10	0.67	30
Nagaland	0.60	30	0.48	31	0.74	28
Tripura	0.76	21	0.85	16	0.85	19
Eastern Region	0.68		0.84		0.87	
Bihar	0.52	31	0.53	30	0.78	24
Jharkhand	0.69	24	0.74	22	0.73	29
Orissa	0.72	22	0.78	19	0.86	18
Sikkim	0.98	12	1.04	8	1.35	5
West Bengal	0.80	19	0.66	24	0.90	15
Andaman & Nicobar Is	1.05	11	1.29	6	0.85	20
Central Region	0.67		0.85		0.80	
Chhattisgarh	0.64	29	0.59	28	0.75	26
Madhya Pradesh	0.68	26	0.63	27	0.75	27
Uttar Pradesh	0.65	28	0.64	26	0.76	25
Uttaranchal	0.95	13	0.99	11	0.99	11
Western Region	1.23		1.01		1.21	
Goa	1.92	3	2.44	2	1.44	4
Gujarat	0.94	14	0.84	17	0.94	14
Maharashtra	1.36	4	0.70	23	1.31	6
Southern Region	1.03		1.04		1.14	
Andhra Pradesh	0.90	16	0.82	18	0.99	10
Karnataka	1.07	9	0.93	12	1.10	9
Kerala	1.15	5	0.55	29	1.82	2
Tamil Nadu	1.08	8	0.90	13	0.99	13
Pondicherry	1.10	7	1.24	7	0.83	22

Source: Calculated from Basic Statistical Returns of Schedule Commercial Banks in India, 2002-03

Note: The Financial Inclusion Index (FII) is a number between 0 (complete lack of inclusion) and 1 (complete inclusion) (full inclusion). Incidences like savings, credit, and insurance might also be anywhere between 0 and 1.

† The Index (FII) is determined by taking a simple average of the reported rates of occurrence for Saving, Credit, and Insurance. The Index for Unofficial Finances was developed by averaging the figures for Saving and Credit.

Because formal and informal settings are not mutually exclusive, they cannot be added together to establish a third category.

14.6 Conclusion:

The various Indian states' NAFINDEXes were built using data obtained at the field level with NAFIS. The index is constructed along three dimensions: historical financial services, cutting-edge banking services, and payment systems. Across the whole of India, the measure averages out at 0.337. The NAFINDEX and dimension indices have different values in different states. Unexpectedly, the modern banking goods and payment mechanisms exhibited greater values in several states that had lower penetration of conventional banking products, as measured by the respective dimension score. Increases in household income and the number of families taught by microfinance institutions are observed in regions with the highest levels of financial inclusion. The findings point the way for future banking expansion into previously unreachable jurisdictions and suggest areas of concentration.

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