Micro-Financial Institutions in Credit Delivery System of Jammu & Kashmir

Dr. Shafqat Ajaz
Lecturer, International Centre for Cross Cultural Research and Human Resource Management
University of Jammu
Email - malik03@rediffmail.com

Abstract: Gramudhyog Hastkala Kendra is an MFI, established in Jammu region and registered as a non-governmental organization. It operates in the various area of State of Jammu & Kashmir. It was the first MFI which arose in J&K for the resolution of providing the financial services to the poor people. It works in the area of advocacy and research, aged and elderly, art and culture, biotechnology, children, civic issues, Dalit welfare, disability, disaster management, education and literacy, environment and natural resources management, health and nutrition, HIV/AIDS, housing and shelter, human rights, information and communication technology (ICT), labor and employment, micro finance, minority issues, micro small & medium enterprises, minority issues, new and renewable energy, panchayatraj etc. their main focus is to provide the various opportunities to the women to overcome their financial crises. The women who want to establish her small businesses like boutique, beauty parlor etc. can gross loan and they can also lend the loan to the people who want to marry their children or want to make a house for them. Handicrafts sector too plays a magnificent role in their income generating practices. Currently, handicraft sector is one of the most imperative factors for the employment generation.

Key Words: Gramudhyog Hastkala Kendra, MFI, financial services, Employment.

1. INTRODUCTION:
Financial Inclusion may be demarcated as the process of ensuring access to the financial services, timely and adequate credit where needed by vulnerable groups such as weaker sections and the low income group can get at an affordable price. Houses with the low income group do not have much admittance to the bank account and have to devote time to avail the various banking services. Thus, the people who are unbanked gets off and it tends to be the duty of the various banking services to provide them the various facilities. The ideal definition should be to look at the people who want admittance to the numerous financial services but are denied at the same time. Financial Inclusion is also defined as the opposite of the Financial Exclusion, which shortens the deficiency of the various segments of the society to appropriate low cost fair. Bangladesh has been acknowledged as a pioneer in the field of micro-finance. Dr. Mohammad Yunus, Professor of Economics in Chitgaon University of Bangladesh, was an initiator of an action research project ‘Gramene Bank’. Another discoverer in this sector is Akhtar Hameed Khan. At that time, a new wave of Microfinance initiatives started in this sector. India has adopted the Bangladesh’s model in a modified form. India’s overwhelming majority of poor is located in rural areas and this motivated the government to give special attention to 103 rural credit. To alleviate the poverty and to empower the women, the micro-finance has emerged as a powerful instrument in the new economy. The roots of microfinance in India can be traced to SEWA Bank. However, the institutionalization and spread of microfinance in India began when the National Bank of Agriculture and Rural Development (NABARD) started promoting the Self Help Group (SHG) model to deliver financial services to the poor. The Micro Finance Institution (MFI) in India was first introduced in 1974, but the momentum was achieved only during the 1990s. In the country Self Employed Women’s Association (SEWA) Bank is the oldest micro finance organization. It was founded in 1974 in Ahmadabad, Gujarat as a trade union first which started organizing self-employed women. With availability of micro-finance, self-help groups (SHGs) and credit management groups have also started in India.

The committee under Mr. Y.H Malegam submitted its report on January 2011, which suggests separate micro finance NBFC regulatory structure under RBI and fixed an interest cap at 24%. The microfinance industry in India has followed a typical trajectory from a slow start to a period of high growth and then a subsequent calm phase. Shri Y.H. Malegam on January 2011 gave the Malegam Committee Report to review the definition of ‘Microfinance’ and ‘Micro Finance Institutions (MFIs)’ for the purpose of regulation of non-banking finance companies (NBFCs) undertaking microfinance by the Reserve Bank of India and make appropriate recommendations. It was the much-awaited report because it is the 1st committee report of significance to attempt the creation on of a (national) regulatory framework for Micro Finance in India. By creating a new category called NBFC-MFI, it has clearly positioned the Microfinance within the framework of larger financial sector in India. An NBFC-MFI is a company which has the features: provides financial services to low income borrowers, With loans of small amounts, For short-terms, On
unsecured basis. Mainly for income-generating activities, With repayment schedules which are more frequent than those of commercial banks and Which conform to the regulations specified. According to Deepak Mohanty Committee report, which was released by RBI on Dec 28, 2015, MFI play a critical role in furthering Financial Inclusion. The bank credit to MFIs should be encouraged. The MFIs must provide credit information on their borrowers to credit bureaus through Aadhaar-linked unique identification of individual borrowers. In the past few years, the Indian microfinance sector has experienced phenomenal growth. This is evident from the fact that as many as eight MFIs have been granted ‘in principle’ approval by the Reserve Bank to set up Small Finance Banks and one MFI has already started functioning as a bank. RBI has allowed MFIs to be appointed as BCs.

2. NEED FOR MICRO FINANCE:
The Reserve Bank of India (RBI) defines microfinance as “the provision of thrift, credit and other financial services and products of very small amounts to poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards”. It also serves as the umbrella for the main part of the population that is not being served by the financial services. It is not only restricted to the provision of the micro-credit. It also donates short term loans to the population who are in need of it. These products include individual and group loans, savings services, facilities to en-cash cheques, payment orders, micro insurance, loan –guarantees and the transfer of remittances from abroad. In the Indian context, specifically in rural areas, there remains a vast lacuna to obtain ability to be a viable means of providing finance and financial requirements to the poor people. By 2009, NBFC-MFI was also described by the duty strength on encouraging policy and regulatory structure for microfinance like guarantees and the transfer of

- CREDIT TO RURAL POOR- Usually rural sector depends on non-institutional agencies for their financial requirements. Micro Financing has been successful in taking institutionalized credit to the doorstep of poor and has made them economically and socially sound.
- POVERTY ALLEVIATION- Due to micro finance, poor people are getting employment. It also helps them to improve their entrepreneurial skills and encourage them to exploit business opportunities. Employment increases income level which in turn reduces poverty.
- WOMEN EMPOWERMENT- Normally more than 50% of SHGs are formed by women. Now they have greater access to financial and economic resources. It is a step towards greater security for women. Thus, microfinance empowers poor women economically and socially.
- ECONOMIC GROWTH Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which in turn increases GDP and contributes to economic growth of the country.
- MOBILIZATION OF GROWTH- Microfinance develops saving habits among people. Now poor people with major income can also save and are bankable.
- DEVELOPMENT OF SKILLS- Micro financing has been a boon to potential rural entrepreneurs. SHGs encourage its members to set up business units jointly or individually.
- MUTUAL HELP AND COOPERTAION- Microfinance promotes mutual help and cooperation among members. The collective effort of group promotes economic interest and helps in achieving socio-economic transition.
- SOCIAL WELFARE- With employment generation, the level of income of people increases. They may go for better education, health, family welfare etc. Thus, micro finance leads to social welfare or better of society.

3. MICRO-FINANCE INSTITUTIONAL STRUCTURE IN INDIA:

- Mainstream Microfinance Institutions: NABARD, Housing Development Finance Corporation (HDFC), Small Industries Development Bank of India (SIDBI), credit co-operative societies, Regional Rural Banks (RRBs), Commercial Banks, etc. are few of the mainstream economic organizations engaged in widening Microfinance.
- Alternative Microfinance Institutions: When the mainstream microfinance institutions are unable to provide benefits to the SHGs, the alternative microfinance institutions act as a mediator between the mainstream MFIs and the SHGs. They have arisen to pack the space of microfinance linking the demand and supply. MFIs were also described by the duty strength on encouraging policy and regulatory structure for microfinance like "those which provide thrift, credit and other financial services and products of very small amounts, mainly to the poor, in rural, semi-urban or urban areas for enabling them to raise their income level and improve living standards."

MFIN (Micro Finance Institution Network): Non-bank finance company-micro finance institution has proved itself to be a viable means of providing finance and financial requirements to the poor people. By 2009, NBFC-MFI was contributing a large proportion of the microfinance activity in India, so it is needed for the transparency and better
governance. Thus, MFIN provides responsible lending, client protection, good governance and supportive regulatory environment. Its vision is to provide the financial services to the 100 million low income households by 2020. It is a common platform for discussing the issues and the concerns of the industry. To be the member of the MFIN, NBFC-MFI should be registered with the RBI, an applicant should be the member of the credit bureaus like Highmark and Equifax and compliance with the MFIN code of conduct should be there.

MUDRA (Micro Unit Development Refinance Agency): Prime Minister Sh.Narendra Modi launched the promised Micro Units Development and Refinance Agency (MUDRA) Bank on April 8, 2015. MUDRA BANK is for funding the unfunded. It was set up by the government with a capital of 20,000 crore for the regulation and refinancing of the micro finance institutions. The Bank would partner with state level/regional level coordinators to provide finance to Last Mile Financer of small/micro business enterprises. They provide credit of up to 10 lakhs and act as a regulator for the micro finance institutions. Register, regulation, rating of MFI entities, they assist the lower income groups to increase their business. MUDRA bank is also responsible for regulating and refinancing all micro-finance institutions (MFIs) which are in the business of lending to micro or small business entities engaged in manufacturing, trading and services activities. They prevent the over-indebtedness and also ensure client protection.

SRO (Self-regulatory Organization): To give effect to the recommendation of the Sub-Committee on formation of industry associations, to ensure effective monitoring of the functioning of NBFC-MFIs, their compliance with the regulations and code of conduct and in the best interest of the customers of the NBFC-MFIs, the Reserve Bank decided to accord recognition to industry associations as SRO of NBFC-MFIs. The RBI recommends all MFIs to be member of one SRO at least but they can be members of more than one. The SRO holding recognition from the Reserve Bank will have to adhere to a set of functions and responsibilities, such as formulating and administering a Code of Conduct recognized by the Bank, having a grievance and dispute redressed mechanism for the clients of NBFC-MFIs, responsibility of ensuring borrower protection and education, monitoring compliance by NBFC-MFIs with the regulatory framework put in place by the Reserve Bank, surveillance of the microfinance sector, training and awareness programs for the members, Self Help Groups, etc. and submission of its financials, including Annual Report, to the Reserve Bank.

4. STUDY OF MFI IN J&K:

GRAMUDHYOG HASTKALA KENDRA is an MFI, established in Jammu region and registered as a non-governmental organization, which runs under the chief functionary Shri RaviKumar as Chairman and Shri Bahari Lal as Secretary. It operates in the various area of State of Jammu & Kashmir. It was the first MFI which arose in J&K for the resolution of providing the financial services to the poor people. The numerous operational districts in which they operate are Anantnag, Budgam, Baramulla, Doda, Jammu, Kargil, Kathua, Kupwara, Leh, Pulwama, Poonch, Rajouri, Srinagar, and Udhampur. Their present discourse is near the National Highway Hiranagar, Kathua district. Gramudyog Hastkala Kendra was established in the year 1995. It works in the area of advocacy and research, aged and elderly, art and culture, biotechnology, children, civic issues, Dalit welfare, disability, disaster management, education and literacy, environment and natural resources management, health and nutrition, HIV/AIDS, housing and shelter, human rights, information and communication technology (ICT), labor and employment, micro finance, minority issues, micro small & medium enterprises, minority issues, new and renewable energy, panchayat raj etc. Their main focus is to provide the various opportunities to the women to overcome their financial crises. The women who want to establish her small businesses like boutique, beauty parlor etc. can gross loan and they can also lend the loan to the people who want to marry their children or want to make a house for them. Handicrafts sector too plays a magnificent role in their income generating practices. Currently, handicraft sector is one of the most imperative factor for the employment generation. The main attainments that they have achieved are 500 self-help groups formed under NABARD self-help group linkage programme. About 20 lakh section by Rashtriya Mahila Kosh (RMK) to this organization under micro finance. The major doings that take place are – Gram Shree Mela was organized by the GHK, One craft bazar was also organized by this organization. The interest rate thrilling by this MFI entirely hinges on upon the rate of the interest the bank charged them first. But the extreme interest rate charged by them is between 10% to 14%. The minimum income level of their borrowers is from 60,000 – 2 lakhs annually, of which furthermore of the people are uneducated, less conscious and solitary one member of their family earns. As the maximum number of the borrowers is illiterate, thus the comprehensive picture of the loan circumstances to the borrower is not given. According to Gramudyog Hastkala Kendra, most of the people are not conscious of their MFI, as the illiteracy rate of this region is quite high, certainly awareness is not there and promotion deficiencies, level of interest gets slow down. People desire for procurement of loan from any member of their family or any friend as it is considered to be a shameful thing for them to buy loan. For the alertness of the MFI, they organize awareness camp, which helps them to catch the consideration of the people and promote their MFI. As J&K is the subsidiary state, thus the poverty line of Jammu & Kashmir is lesser than the other states. There is no collateral policy prevailing in this MFI, thus the much
strength gains interest. An individual can lend the first installment of the loan when the business goes well. Gramudyog Hastkala Kendra is not registered with RBI. They are also not in touch with the MUDRA bank. The problem which this MFI faces is the lack of the involvement of the government, which tends to become a major barrier for them. In today’s scenario, people will take the advice of the famous politician or an individual easier than the other person, thus, in many of the times the politicians become a bigger stone on the way, with the end result that it gets stuck in the mind of the people for not preferring the MFI, as it may not be a trustworthy factor. For promotion of the MFI, it is thereby the greatest responsibility of the government to make people aware of it. As in this State, there is no culture of the MFIs, which creates difficulties for an individual to convince the borrowers. In most of the cases, people take money but do not lend it. They do not have the habit of returning the money back. The banking network, which is an important component of any MFI to run efficiently lacks behind in this state, thus for the more MFIs in this state, innumerable factors need to be improved.

5. FINDINGS:

- **What do you deal in:** The survey was conducted of 40 people and both the urban and the rural areas were identified. Districts like Akhnoor and Jammu were mainly taken into considerations. The foremost emphasis was given to the small Businessmen who need to take small loans for the develop efficiency of their Business. 35% of the people who contract with the business were taken into consideration, and the smallest precedence was given to the Govt. Employee i.e. 17% only, because conferring to the knowledge enhanced, majority of the Govt. Employee don’t need loans as they only focus on taking big loans. The amount of the maximum percentage of the people dealt were the small businessmen and their percentage was considered to be 35%.

- **AWARENESS OF MICROFINANCE:** Out of the regions and the districts where the survey was conducted, about 78% of the people were not aware of the Microfinance concept and only 22% of the population was cognizant about it. According to them, none of the people told them about this concept and it was the first time that they heard about it. Majority of the people who knew about it were the businessmen and the Govt. Employees. It being the big concept which is prevailing in the majority of the states of the country and whose benefits are reaped by the people, it was very heartening to know that the citizens of the State of Jammu and Kashmir are not even aware of it.

- **HEARD OF MFI:** Only 17% of the people have heard about Microfinance Institutions and 83% of the category are less aware about it. Majority of the people not even know about the concept called Microfinance, as none of the initiatives have been taken by the Government of the State for the promotion of the Microfinance Institution. Most of the rural areas where the people in their hard times are forced to take loans from the money lenders with the high rate of interest, do not know even about the concept.

- **INCOME LEVEL:** Maximum number of the people i.e. 48% does not want to disclose their income level. 17% of the people were having their income level less than 50,000. The main focus was to go to that population of the state which was below poverty line and who often have the need to take small loans whether it would be a small businessmen or an individual who need the loan for the small expenses. People whose annual Income Level was equal to or more than 50,000 and 1 lakh to 1, 50,000, their percentage was equal.

- **NEED OF SHORT TERM FINANCING:** The survey concluded that only 40 out of 9 people feel the need of taking short term loans frequently. 38% of the people take the loans temperately and 40% of the people feel the need of taking loans hardly.

- **SOURCES CHOSEN TO YIELD LOANS FROM:** Out of 40 people surveyed, 40% of the people prefer to take loans from others. For them, it is the most convenient and reliable approach for the public of the Jammu & Kashmir as it does not involve interest, no collateral is there, and no paper work is included. 37% of the people desire to acquire loans from the banks as according to them it is the most effective and the trust worthy approach for buying loans. Only 23% of the people take the small loans from their relatives, as in maximum of the cases, the relatives are also not financially sound. The appalling part of the survey was that none of the people had taken loans from the Microfinance Institutions, which is the best approach and the finest preliminary step taken by the Government. The folks existing in the rural and the urban areas do not have any cognizance about it.

- **PURPOSE TO TAKE LOANS FOR:** The purpose of the majority of people to take loans is for establishing their business (40%), as through the expansion of their business, their income level would increase as well as they would thereby, come out of the below poverty line. In the State, maximum number of the people don’t prefer to take loans for the education purpose (3%) as according to their perspective, the loans taken for the education is of no use if their business or their work does not establish well.

- **INTEREST LEVELS:** Levels of the Interest charged by the Banks, Money Lenders or MFIs is the major area of concern for any individual. Everyone wants that the interest rate charged by any of the organization should be less and thus, there should be no problem in the period for returning their loans back. 40% people feel that
the interest level charged should be under 5%, and the 32% people feel the need of charging the interest rate should be under 8%. The people living in the rural and the urban areas can’t afford to give the highest interest levels i.e. under 15%.

- **BEHAVIOR OF HANDLING DEFAULT:** Maximum number of individuals is not happy with the behavior of handling the default by the banks or any other organization. A sense of pressure is inculcated on them to return the money as they feel that the banks or any other organization gives threats due to which the morale of an individual comes down. Some of the people have never experienced the default situation, as they tend to return their money on time and just 20% of the people are happy with the behavior of handling the default, as according to them they get the full-fledged notice.

- **AWARENESS OF PRADHAN MANTRI MUDRA YOJANA:** Awareness of the Pradhan Mantri Mudra Yojana is acknowledged by supreme of the people.

- **IS MFI SUBSTITUTE TO BANK LOANS:** There is not a big difference between the people who think that MFI is the substitute to bank loans and the people who do not. 49% of the people when surveyed felt that the MFI is immense and a very decent supernumerary to bank loans, as there is no collateral involved in it, the interest rate charged by the organization is not that high, banks do not offer small loans to the individual but MFI offers, which is the basic advantage for any individual. 41% of the individuals felt that the MFI cannot be the substitute to bank loans since they are not aware of this concept neither they know the advantages nor the disadvantages of the Microfinance Institutions. According to them, the culture of MFI is not prevailing in the state and there is no involvement of the Government in it. Therefore, they can’t trust the unauthorized organization. 10% of the people have the neutral opinion, as in their opinion they can’t judge it.

- **VARIOUS FACTORS WHICH RESTRICT PEOPLE TO APPROACH MFIs:** 40 people of both the rural and the urban areas whose survey was undertaken gave the various factors which confine them to approach the MFIs. One of them being that less number of MFIs are operating in the state. For inculcating any activity, it is very important to create the opportunity for it. People of the Jammu region feel that the Government does not create opportunity for them to make them aware of the various beneficial schemes started for the benefits of the individuals.

### 6. REASONS BEHIND LESS NUMBER OF MFIs IN J&K:

Jammu & Kashmir is also known as the heaven on the Earth and is located in the northernmost part of the country and also forms the northern boundary of the country. The State of Jammu and Kashmir has its own economic and cultural ethos. Geographically as well as culturally, the state can be divided into three main regions. The Jammu Region being adjacent to Punjab is dominated by Punjabi culture, Kashmir Region is dominated by Muslim population and Ladakh Region has mainly Buddhists. In state, the banking sector profile consists of 22 public sector banks with 392 branches, 7 private sector banks with 672 branches, 10 cooperative banks with 253 branches. In total, there are 42 banks operating with 1656 branches. The progress of the various MFIs in J&K gets slow down because of the low level of the poverty as compared to other states. The poverty line of the J&K people is less as comparable to the other states. The state has faced unrest due to militancy during last two decades, as a result of which the overall economic growth also got slowed down. The poor publicity of the programme, less awareness, less promotion, low level of understanding of the concept are some other reasons for it. The outreach of the credit delivery system to the poor people is quite bad in the state, that is, the moneylenders were holding their sway over the rural poor because of their responsiveness, flexibility and sensitivity to the credit wants of the deprived people. The poor requires credit very frequently in small quantities for his activities without much hassle. The moneylender is always there at his doorstep for supplying the credit promptly, but at an exorbitant rate of interest, forcing the poor to cough up all his surpluses/ income and making him/her, thereby, move downhill along the poverty line. The moneylender has a vested interest in the perpetuation of poverty. In this state, there is no culture of the NGOs, MFIs and thus which makes it difficult. People usually do not have the habit of returning the money back. Mainly MFIs only operates in the states where the banking network is strong, but in this state the lacking of banking network is faced. Lack of proper governance and accountability need to be enhanced in this state. There should be a proper relation between the government and the various banks and thus the gap needs to be filled.

### Key Issues of Microfinance in J&K

- **Less outreach:** In J&K, MFI outreach is very low. It has been experiential that several of the Microfinance programs mainly emphasis on the women as their main clients. As they believe that women can save the money more as compared to the men. But in order to increase the outreach of the MFIs, the men should also be given the priority.

- **Higher Interest Rates:** MFIs are charging very high interest rates which the poor find it difficult to pay. Thus, the main objective of the MFI to serve the poor gets diminished by the high interest rates. It is imperative for any of the MFIs to preserve the proper equilibrium between the dual objectives of commercial feasibility and serving the poor.
• Loan Default: The other key issue in Microfinance in J&K is the loan default. Majority of the people do not distinguish how to make the appropriate utilization of the loan, thus, it generates a delinquent while returning the loan back. Lack of understanding plays a keen role in it.

• Education Level: Mainstream of the clients is less educated. So, it generates a problem in the expansion and the development of the institution. They are fewer aware of the institution and incline to make their own negative assumptions ignoring the positive part of it.

• Lack of Banking Network: It is observed that the MFIs route appropriately only in those states where the Banking Network is robust between the MFIs and the Banks. But, it thereby lacks in the J&K state.

• Lack of Insurance Services: Poor people are helpless to financial shocks. A small change in their earning patterns due to natural calamities, health problems, and death of earning member can push them to destitute. So, a provision of insurance under the microfinance programme is very essential to help the poor to cross the poverty line. But, in reality, the current microfinance programmes in J&K is just focused on regular saving and micro-credit.

• Regional Disparity: It has been observed that the microfinance programme is mainly run by formal financial institutions with the help of SHGs. As a result, microfinance programme is progressing in those areas of the state where there is tremendous growth of formal financial institutions. Microfinance institutions were expected to reach those areas where the formal banking system failed to reach and the poor people have to depend on the money-lenders in order to meet their financial requirements. But actually, many big MFIs are activating in those states where the banking network is very strong.

• Urban poor abandon: It has been experiential that most of the MFIs only emphasize on the rural areas and consequently, desert the urban poor as they are of the equivalent importance and they are also correspondingly in need of the loan.

On the root of the above findings, it can be observed that there are innumerable key issues and the glitches due to which fewer amount of MFIs prevail in the J&K state. Deficiency of the engrossment of the government is there which plays a momentous role in authorizing the Micro Finance Institutions. According to the State Level Banker’s Committee, Jammu & Kashmir, there is only one MFI in the state. The reasons are the dearth of the banking network, which plays a momentous role in authorizing the MicroFinance Institutions. Accordiing to the State Level Banker’s Committee, Jammu & Kashmir, there is only one MFI in the state. The reasons are the dearth of the banking network, which is very imperative. None of the ingenuities are taken for the alertness of the MFIs. People in the state are still trapped up to the plagiarizing of small loans from the money lenders culminating in giving high interests. If the overhead shortcomings are overcome, the state would relish the occurrence and the welfares of the MFIs.

REFERENCES:
2. Dr. Prakash Singh Faculty (Finance and Accounting area), IIM Lucknow, Understanding the structure of Micro Finance Institution in India and suggesting a regulatory framework (2012).
4. M .S. Sriram: “Micro Finance and the state exploring areas and the structure of collaboration” (2003), (http://www.msrsiram.in/DFAO0DED8-6BE66-4620-BD96-DE06E02C2A4)
5. Micro Finance Institution Network(MFIN) –Code of Conduct for MFIN members (http://www.sonataindia.com/DFAO0DED8-6BE66-4620-BD96-DE06E02C2A4)