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ADDRESSING FINANCIAL EXCLUSION THROUGH MICRO FINANCE: LESSONS FROM THE STATE OF JAMMU AND KASHMIR

Naseer Ahmad Rather[1]* and Parvaze Ahmad Lone[1]

*Corresponding Author: **Naseer Ahmad Rather** ✉ econaseer@gmail.com

The paper analyzes the status of financial inclusion using the case of Jammu and Kashmir, one of the industrially backward states of India, and suggests microfinance as a tool for successful financial inclusion in the state. The purpose of this paper is to present important lessons from the policymakers and various stakeholders who are eager to solve the problem of financial exclusion. Financial inclusion is a key factor in shaping the growth process of the economy. In India, microfinance has emerged as a powerful tool for the financial inclusion, which links low income groups with banks. Microfinance is dominated by Self-help Groups. So self-help groups are playing a very important role in the process of financial inclusion. All the beneficiaries of microfinance accept that they have gained greater economic and social security due to access to microfinance services through financial inclusion. Microfinance directly and indirectly intends to help the state in improving the access of finance which can promote the economic development of the state and help to improve the living standard. Access to financial services and the subsequent transfer of financial resources to poor make them to become economic agents of change. People become economically self reliant and contribute directly to the well-being of their families, play a more active role in decision making and are able to confront systematic gender inequalities. Microfinance is not a miracle cure that can eliminate poverty in one fell swoop, but it can end poverty for many and reduce its severity for other. Combined with other innovative programs that unleash people's potential, microfinance is an essential tool in the search for poverty free world.

Keywords: Financial exclusion, Microfinance, Self help groups, Excluded

INTRODUCTION

In India and other developing countries, most of the poor people are excluded from participation in the formal financial sector, whether it is from access to credit, savings, or insurance. The financially excluded sector in Jammu and Kashmir consists largely of marginal farmers, landless laborers, self employed small vendors (hawkers), unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities, senior citizens and women and this situation is worse in the Central, Eastern, and North-eastern regions where 64% of farmer households are financially

[1] Department of Economics, S S L Jain PG College Vidisha (MP).

excluded (NABARD, 2008). The extent of financial exclusion is staggering in our country out of 600,000 habitations in the country, only about 30,000 have a commercial bank branch. Just about of population across the country have bank accounts, and this ratio is much lower in the north east states of the country particularly Jammu and Kashmir. The proportion of people having any life insurance cover is as low as 10% and proportion having non-life insurance is abysmally low at 0.6%. In this regard microfinance has emerged globally as a leading and effective strategy for poverty reduction with the potential for far-reaching impact in transforming the lives of the poor people (Working Paper, Bank of Ghana, 2007).

Financial inclusion or alternatively, financial exclusion has been defined in literature in the context of a larger issue of social inclusion or exclusion in a society. One of the early definitions by Leyshon and Thrift (1995) defined financial exclusion as referring to those processes that serve to prevent certain social groups and individuals from gaining access to the formal financial formal system. According to Sinclair (2001), financial exclusion means the inability to access necessary financial services in an appropriate form. Exclusion can come about as a result of problems with access, conditions, prices, marketing or self-exclusion in response to negative experiences or perceptions (Carbo *et al.,* 2005) have defined financial exclusion as broadly the inability (however occasioned) of some societal groups to access the financial system. The Government of India's Committee on financial inclusion in India begins its report by defining financial inclusion "as the process ensuring access to financial services, timely and adequate credit where needed by vulnerable groups such as the weaker sections and low income groups at an affordable cost" (Rangarajan Committee, 2008).

In recent times, finance has emerged as a major innovation in the rural financial market place. Microfinance largely addresses the issue to financial services (Sriram, 2005). A growing body of research around the world shows that a well developed and inclusive financial systems are associated with faster growth and better income distribution. Finance also helps to extend the range of individuals, households and firms that can get a foot hold in the modern economy, and it reduces damaging concentrations of economic power (Basu Priya, 2005). Microfinance has been considered as a tool for economic development and poverty reduction, but the access of microfinance is closely related with the awareness of microfinance. An important addition to the knowledge base available on banking services for the poor is ambitious "Access to finance". Survey carried out across the world by CGAP, it pointed out the institutional and other inadequacies in the developing countries that resulted in limited access to services. The survey finds out that developing countries have one third the numbers of deposits per person which is very high in developed countries. The outreach of financial institutions was much narrower in developing countries; in terms of the number of branches it was one third the numbers and, in terms of number of points of scale, it was about twelve fifth per unit of population compared to what was in high income countries (Srinivasan, 2010).

ROLE OF MICROFINANCE IN FINANCIAL EXCLUSION

Empirical evidence suggests that access to financial services helps the poor and has a positive impact on nutrition and health outcomes, demand for education and the status of women within a household (Littlefield, 2003). In the beginning of 2008, the Indian governments Committee on financial inclusion set a goal to provide access to comprehensive financial services to at least 50% of the excluded rural households by 2012 and to cover the remaining households by 2015. For the past few years, there has been a noticeable effort by the Indian government to bridge the gap of financial exclusion through new outreach mechanisms like “no-frills saving accounts” – saving accounts with zero or low minimum balances – smartcards, Business correspondent and Business facilitator models, bank alliances with the post office system and other initiatives.

For decades, conventional financial institutions all over the world overlooked the poorer segments of the market due to high cost of small transactions. However, the emergence of microfinance over the past two decades in most developing countries has shown that the poorer clients can be served despite the higher transaction cost. The Monterrey Consensus adopted in 2002 by numerous countries at the International Conference on Financing for Development explicitly recognized that “microfinance and credit for micro, small and medium enterprises; as well as national savings schemes, are important for enhancing the social and economic impact of the financial sector” (Conroy, 2008). This statement reflects the belief that microfinance strategies that embrace savings, deposits, remittances, micro-insurance and pensions, are among the most powerful tools for reducing financial exclusion.

Jammu and Kashmir State is still behind to other states in its financial inclusion goals, but it has the potential to extend financial services to large number of excluded populations due to many progressive initiatives undertaken by the government, banks, microfinance institutions and NGOs. Jammu and Kashmir accounts for 1.04% of the total population of the country, but its contribution to the national income are just about 0.7%. In this background microfinance has emerged as one of the tools in Jammu and Kashmir for poverty mitigation against economic backwardness and political turmoil being witnessed over two decades now. Microfinance directly and indirectly intends to help the state in improving the access of finance particularly to women which can improve the economic development of the state and help to improve the living standard.

METHODOLOGY AND DATA

Keeping in view the present status of work the data of different aspects was collected from secondary sources. The data from secondary sources was gathered from both published and unpublished data. The published data was gathered from journals, magazines, reviews, periodicals and newspapers. The data collected from secondary sources was mainly accessed through internet. Primary data was collected from the beneficiaries of microfinance program and microfinance providers. The data from beneficiaries of microfinance program was collected through stratified random sampling technique giving a proportional representation to the population.

During the present work of research paper the data was obtained which shows information about microfinance and it was studied that 2.4% of information is provided by government staff, 82.1% of information is provided by NGOs, 11.9%

Table 1: Information about microfinance in Jammu and Kashmir

Variable	Frequency	Percentage
Govt. Staff	14	2.8
NGO,s	413	82.1
Friends and relatives	60	11.9
Advertisement	11	2.2
Others	5	1.0

Source: Digest of Statistics Jammu and Kashmir

information is provided by friends and relatives, 2.2% information is provided through advertisement and the remaining 1.0% of information is provided by others.

During the tenure of research work data was obtained which shows the progress under microfinance and savings of SHGs with the banks given in the Table 2.

Table 2: Progress Under Microfinance-bank Loan Disbursed Progress Under Microfinance-Bank Loans Outstanding Against SHGs, During 2010-11

Agency	Commercial Banks		Regional Rural Banks		Cooperative Banks		Total	
1	No. of of SHGs	Bank loan (in lakhs)	No. of of SHGs	Bank loan (in lakhs)	No. of of SHGs	Bank loan (in lakhs)	No. of of SHGs	Bank loan (in lakhs)
Progress under microfinance-Bank loan disbursed	137	84.94	53	94.23	117	72.00	307	251.17
Progress under microfinance-Bank loans outstanding against SHGs.	288	93.93	213	182.44	411	18.21	912	456.58

Source: Annual report 2010-11 Ministry of finance Government of India

Table 3: Progress Under Microfinance Savings of SHGs, With Banks-Public Sector Commercial Banks 2010-11

S.No.	Name of Bank	Total Savings of SHGs with Banks			Savings Under SGSY and Other Sponsored Schemes			Out of Total Women SHGs Exclusive Women SHGs		
		No. of SHGs	No. of Members	Amount of Savings in Lakhs	No. of SHGs	No. of Members	Amount of Savings in Lakhs	No. of SHGs	No. of Members	Amount of Savings in Lakhs
1	Bank of Baroda	20	208	0.35	NA	NA	NA	19	201	0.25
2	Central Bank of India	20	190	2.02	20	190	2.02	15	156	1.24
3	Punjab national Bank	163	15090	7.50	148	6980	7.50	116	12860	6.05
4	State Bank of India	1375	12703	230.65	126	1254	17.15	1086	10704	158.22
5	Subtotal	1578		240.52	294		26.67	1236		165.76

Source: Annual report 2010-11 Ministry of finance Government of India

RESULTS AND DISCUSSION

In recent times, microfinance has emerged as a major innovation in the rural financial marketplace. Microfinance largely addresses the issue of access to financial service. A growing body of research around the state shows that well developed and inclusive financial systems are associated with faster growth and better income distribution. In the state of Jammu and Kashmir microfinance has helped to extend the range of firms, households that can get a foot hold in the modern economy, and it reduces damaging concentrations of economic power and severity of financial exclusion. Microfinance has been considered as a tool of economic development and poverty reduction but the access of microfinance is closely related with the awareness of microfinance. It is clear that, despite formidable obstacles, microfinance is reaching clients who were previously excluded from the formal financial sector. The progress being made in the state by advocates of financial inclusion demonstrates the promise for various microfinance strategies, as well as challenges ahead.

From Figure 1 it is clear that progress under microfinance shows increasing trend and due to progress the extent of financial exclusion among rural and urban areas of Jammu and Kashmir can be reduced. Progress of microfinance does not mean that financial exclusion can be totally eliminated but it means reducing the severity of financial exclusion for other people so that economic stability can be maintained in the rural and urban areas of the state.

Table 4 clearly indicates that the progress under microfinance and savings of SHGs with regional rural banks has shown consistent improvements except Kamraz rural bank due to progress under microfinance and savings of

Figure 1: Progress Under Microfinance-Bank Loan Disbursed + Bank Loan Outstanding Against SHGs During 2010-11

Table 4: Progress Under Microfinance Savings of SHGs, With Banks (Regional Rural Banks) 2010-11

Name of Bank	Total Savings of SHGs with Banks			Savings Under SGSY and Other Sponsored Schemes			Out of Total Women SHGs Exclusive Women SHGs		
	No. of SHGs	No. of Members	Amount of Savings in Lakhs	No. of SHGs	No. of Members	Amount of Savings in Lakhs	No. of SHGs	No. of Members	Amount of Savings in Lakhs
Ellaquai Dehati Bank	139	1390	8.90	98	980	6.57	98	980	6.57
Kamraz rural Bnk	NA	NA	NA	NA	NA	NA	NA	NA	NA
Jammu rural Bank	76	760	5.32	40	400	2.80	76	760	5.32
Sub total	215	2150	14.22	138		9.37		174	11.89

Source: Annual report 2010-11 Ministry of finance Government of India

SHGs with regional rural banks it has a direct impact on the extent of financial exclusion. Microfinance through Self Help Groups (SHGs) is propagated as an alternative system of the credit delivery for the poorest of the poor groups in the state. Impressive gains made by SHGs-Bank linkage program in the converge of rural population with financial services offers a ray of hope. Recognizing their importance, both Reserve Bank of India and National Bank of Agriculture and Rural Development (NABARD) has been spreading the promotion and linkage of SHGs to the banking system through refinance support and initiating other proactive policies to reduce the extent of financial exclusion among the rural population of Jammu and Kashmir.

Table 5 clearly indicates that the progress under microfinance and savings of SHGs with district central cooperative banks has shown an increasing trend which in turn reduces the extent of financial exclusion and its severity for others.

During the present study of work in Jammu and Kashmir it was found that 31 (93.9%)

Table 5: Progress Under Microfinance Savings of SHGs, With Banks (District Central Cooperative Banks) 2010-11

Name of State District Cooperative Bank	Total Savings of SHGs with Banks			Savings Under SGSY and Other Sponsored Schemes			Out of Total Women SHGs Exclusive Women SHGs		
	No. of SHGs	No. of Members	Amount of Savings in Lakhs	No. of SHGs	No. of Members	Amount of Savings in Lakhs	No. of SHGs	No. of Members	Amount of Savings in Lakhs
State cooperative Bank	396	3070	7.58	396	3070	7.58	315	2395	6.25
Anantnag	14	154	0.03	14	154	0.03	14	154	0.03
Baramulla	132	NA	0.89	132	NA	0.89	NA	NA	NA
Jammu	14	153	0.07	14	153	0.07	14	153	0.07
Subtotal	556		8.57	556		8.57	343		6.35

Source: Annual report 2010-11 Ministry of finance Government of India.

microfinance institutions provided micro loans. While as in terms of savings 31 (93.9%) provided pass book savings, 27 (81.8%) term deposits, 29 (87.9%) had required savings linked loans. In terms of insurance 17 (51.5%) provided health insurance, 23 (69.7%) provided life insurance, 16 (48.5%) provided accident insurance, 14 (42.4%) provided non life insurance and 7(21.2%) provided other insurance facilities. While 21 (61.6%) provided financial literacy, 19 (57.6%) provided business development support and 10 (30.3%) provided other trainings. 22 (66.7%) provided remittances facilities to beneficiaries. Hence it can safely conclude that microfinance services are available, but the availability of financial literacy, business development support and other developments.

CONCLUSION

Microfinance can contribute to solving the problem of inadequate housing and urban services as an integral part of poverty alleviation programs in the state. The challenges lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit instruments of the low income borrowers without improving unbearably high cost of monitoring to end use lenders. Institutions interested in financial inclusion have made significant progress in the state through a variety of initiatives. If microfinance institutions and NGOs and post offices become widely utilized by banks as Business Facilitators and Correspondents, banks will be able to reach previously excluded people even in every remote area with relative ease. Additionally, Stakeholders of the financial inclusion in Jammu and Kashmir are using technology to help them to reach too many previously excluded populations. Microfinance institutions are often able to reach into areas too remote and economically unviable for formal institutions, which demonstrates the imminent need to scale up current microfinance institutions and facilitate entry for new organizations to meet the demand for microfinance. Cooperation from governmental agencies and programs will also be vital in scaling process; these entities have the opportunity to reach many financially excluded people. Despite large rapid growth and effectiveness of microfinance institutions in the state, there are still large areas of Jammu and Kashmir where microfinance is still absent, rural areas have large tribal populations, who are the poorest and most financially excluded ethnic groups of the state. The only poor people who have access to formal sources of finance in these areas are SHG members who were linked by the banks with the help of NGOs.

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