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Impact of Demonetization on Microfinance Sector of Jammu & Kashmir: An Overview.

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Abstract:*The government of India announced demonetisation from the midnight of 8th November 2016 as a tool to crack down the stock of black money, corruption & terrorism activities. With the application of demonetisation, it has driven the country towards a cashless society. Lakhs of the people even in far-flung areas have started using the cashless transactions. This scheme mainly affects the common people, businesses, financial institutions as well as distinct industrial framework of India. The main motive of this scheme is to make India digital economy as well as financial inclusions cashless. For this cause, the new generation should be influenced to educate and help the poor and elderly with digital education and transactions. Rather than this data that the Jammu and Kashmir has a far-reaching banking systems and the essentialness of smaller scale money lies in the way that the proper financial part has not met the monetary needs of the poor segments because of the accompanying reasons; a) Inadequate bank offices in the remote zones b) Inability of the poor to offer acceptable securities against the advances. c) There is a low degree of training and data among the unprivileged area of individuals. d) There is a protest of banks to raid into microfinance.This paper emphasises studying demonetisation & its impact on the microfinance sector of Jammu and Kashmir.*

Keywords – Demonetization, Microfinance, Economy, Financial Institutions.

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Introduction:

Demonetization is a procedure of evacuating or annulling the worth connected to the cash by the legislature in a nation. The French were the first to utilise the word Demonetize. It is executed to supplant the old cash with another one, and is essential at whatever point there is a need to realise an adjustment in the national money of any nation when demonetisation was declared back in the year 2016; the decision government guaranteed the individuals that it was a work in progress as opposed to a final product. The government was exceptionally certain that this progression would deliver rich profits over the long haul. The money specialists of Jammu and Kashmir pointed that this progression did not have any negative impact on the state and rather it cut down costs of the land which had once gone far-off yet prior the impact of demonetisation was exceptionally enormous. It hit the travel industry severely. Individuals from various pieces of the nation were lacking in real money and could not design their outings to Kashmir would be progressively serious on people who procure salaries in real money and go through it in real money. To a lesser degree, it likewise influenced the people who acquire wages in non-money shapes yet need to pull back in real money for utilisation purposes, since various segments in the economy still work prevalently with money. Following a time of demonetisation, the state has begun to suit to this significant move and alleviate the misfortunes that happened because of demonetisation. Demonetization is the most unmistakable and noteworthy when there is an adjustment in the state economy. It is the method for changing old cash with the upgraded one. It is where the government reports the directly running cash notes unapproved to be delicate after the declaration is made. This is one of the enormous advances taken by the administration of India to uncover dark cash, check defilement just as dread financing. It is not the new idea as prior it was done in January 1946 when Rs 1000, 5000 and 10000 notes were removed from course to manage unaccounted cash that is dark cash and second time, it was done in 1978 at the hour of Moraji Desai government when Rs 1000, 5000 and 10000 notes were demonetised, and yet these notes were reintroduced. Last time it was occurred on the eighth of November 2016 by government.

The biggest decision by the Prime Minister of India, Mr Narendra Modi on the night of eighth November 2016 with the careful strike on dark cash by stopping the 500 and 1000 rupee notes from ninth November 2016. Demonetization is not new to the Indian economy.

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India had experienced this period of demonetisation twice prior, in the year 1946 pre freedom period and i1978 by then decision Janata Party.

Microfinance:

Microfinance is probably the most grounded instrument accessible to battle destitution and elevates a large number of Indians to a superior way of life. Microfinance started its voyage by giving credit to poor people. Since 1992, In India, 60% of the populace relies upon the horticultural segment for their employments, and 30 % of the populace lives underneath the destitution line. This populace in the rustic zone required miniaturised scale credits for various purposes, for example, little one's business reason, rural reason and individual reason. Microfinance organisations give microcredit to needy individuals and give these credits in real money. The demonetisation has had an incredible effect in the areas with the best utilisation of fluid money, the absence of accessibility of new banknotes has influenced the casual high-power money economy of low-pay bunches served by microfinance in the weeks following the old Rs 500 and Rs 1000 banknotes announced unlawful. Microfinance establishments, other than banks, had constrained their clients to get new banknotes or to pay the measures of their credits in other legitimate groups. Along these lines, there was a money mash in India. In Jammu and Kashmir, the entrance to credit stays a significant test for the oppressed segment of the family unit who live in a remote. These days, money related organisations have made this portion casual, progressively gainful and inviting for the oppressed and lower segments of individuals. Rather than this data that the Jammu and Kashmir has a far-reaching banking systems and the essentialness of smaller scale money lies in the way that the proper financial part has not met the monetary needs of the poor segments because of the accompanying reasons; a) Inadequate bank offices in the remote zones b) Inability of the poor to offer acceptable securities against the advances. c) There is a low degree of training and data among the unprivileged area of individuals. d) There is a protest of banks to raid into microfinance.

These budgetary organisations have made the credit simpler &convenient to the individuals of remote by offering various money related administrations which further offer miniaturised scale advances to the low-level salary families, normally with no security. The account can be utilised for creation exercises, utilisation or for working/beginning an independent company unit. Although this credit empowers low-level pay individuals to raise their jobs and level of

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pay. Microfinance has given access to the individuals of remote regions to produce monetary development openings. It changes and lifts the lower and more vulnerable segments of the general public principally SC/ST classifications. The microfinance likewise profit miniaturised scale protection offices to the rustic individuals all together they diminish costs identified with health issues, or the harm of benefits can be recouped. The data uncovers that the loan fees are shrouded charged by the casual cash moneylenders than those of miniaturised scale fund organisations. Consequently, there is an overwhelming interest from every one of the corners to spare the individuals of country zones from these extorters and microfinance organisations assumed a significant job to come to the unprivileged area of individuals.

Review of Literature:

(Vishwanathan, 2016) studied the impact of DM on collection efficiency and observed that collection efficiency differed across states. States like Jharkhand, Orissa, and Andhra Pradesh have successfully achieved 90 percent plus collection efficiency, whereas in Uttar Pradesh, Uttarakhand and Maharashtra this efficiency has been below the threshold limit.

(Nag, 2016) found that the effect of demonetisation could be seen in the loss of labourers ' salaries. The owner also closes the businesses, which is powered in cash. Since the unorganised sector is largely cash-driven by this push, the borrowers ' creditworthiness has also harmed their economic activities.

Nasir and Farooqi (2016) stated that microfinance had played an important role for women empowerment in terms of reducing poverty level and generating self income. The study further appreciates the concept of microfinance in bringing confidence, patience and courage among member (women) to establish their own business**.**

S. Poominathan and Amilan (2016) revealed that microfinance is providing value for women development. He further suggests that organisations should take steps on factors like empowerment, education, health, community and religion**.**

Parul Mahajan1, Anju Singla2 (2017): This demonetisation is very different from the 1978 demonetisation, which never truly influenced conventional individuals. The 1978 demonetisation secured notes of ▪ 500 and the normal man did not really utilise ▪ 1000 and those divisions. The hundred rupee note was what the vast majority utilised. Be that as it may, in contrast with the present situation, the impact has been to a great extent upon the conventional man than on the ones who are the primary supporters of the dark cash. With the point of accomplishing money related consideration alongside making India money less and

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advanced economy, there is a requirement of endeavours to make innovation arrive at the base of the pyramid. For this reason, the young age ought to be utilised upon to instruct and bolster poor people, provincial and older with computerised proficiency and exchanges.

Loans to MFIs by Banks/Financial Institutions

President (SLBC) expressed that under four significant Government supported plans banks working in the State have dispensed a sum of Rs.44.88 Crore for 2034 recipients, in this manner accomplishing 17% of the objective in money related terms and 19% in physical terms. Which included Rs.21.63 Crore dispensed in support 1158 recipients under NRLM, Rs.17.65 Crore dispensed for 443 recipients under PMEGP, Rs.5.03 Crore favouring 360 recipients under NULM and Rs.0.57 Crore favouring 73 recipients under SC/ST/OBC Scheme. Chief Industries and Commerce, Jammu expressed that exhibition of banks under PMEGP was not good as out of 799 cases supported to banks just 103 cases were authorised, and rest of the cases are pending with the banks. Secretary, KVIB educated that J&K KVIB has been the No.1 best-performing Agency in the nation under PMEGP during 2018-19.

On 31 March 2016, MFIs have 40 million customers with a remarkable credit of 63,853 crores. There was a development in the normal credit remarkable per customer, by 76% from 7481 crores in 2011 to 13162crorein 2015. (Miniaturized scale Finance report 2016-17) as indicated by MFIN, as on 31.03.2017, the Micro Finance industry has a complete advance of ▪ 1, 06,916 crores. In 2016 significant part (94%) of credit given by MFIs is for gainful purposes and significant part for the pay producing exercises like Agriculture, Animal cultivation, and little exchanging is the significant salary creating exercises that record for 79% of the microcredit gave by MFIs in 2016.

Objectives of the Study:

1. To see the impact of Demonetization on socio-economic conditions of microfinance beneficiaries in J&K.
2. To study the impact of Demonetization on microfinance development in Jammu and Kashmir.

Impact of Demonetization on Microfinance Sector

MFIs and their goal of money related incorporation got extremely hard hit because of demonetisation. They give budgetary help to low-pay country and semi-urban families. Clients incorporate ladies, day workers, ranchers, little merchants, and retailers.

The desorption of a higher section of cash has made a liquidity emergency in the short and medium-term framework. One of the most exceedingly terrible is the microfinance segment (MFI) and money related to joining. Since exchanges with microfinance clients are money escalated, demonetisation has strongly affected the microfinance business in various manners, including easing back development because of an absence of liquidity for a while. Be that as it may, for the entire year, MFIs paid out ▪ 2.63 crores in advances worth ▪ 50.266 crores. Contrasted with the earlier year, this speaks to an expansion of 13% in both the number of advances dispensed and the sum dispensed. The first 10 MFIs in quite a while of credits conceded speak to 78% of the payment of the part for the whole year 2016-17. Another effect of demonetisation and the ensuing easing back of the economy has been the deceleration of advances. "All through 2016-17, MFIs got an aggregate of 24.896 rupees underwater assets from banks and other money-related establishments, which speaks to a minimal reduction contrasted with the 2015-16 monetary year, during 2016-17, bank financing is for 55% out of all-out subsidising. The rest is non-bank financing, incorporating obligation brought up in the market through NCDs (Non-convertible Debentures).

Short-term challenges to MFIs during demonetisation:

- MFIs cannot accept repayments of loans on old invoices issued. Therefore, MFIs cannot repay banks, which affect their rating. Because of negative rating, banks stopped providing financial support, which led to shutting down of many MFIs. Without MFIs, poor people have no other source of finance.
- The repayment of the loan,which is carried out in liquid currency, is suffering. Due to the shortage of currency non-payments of loans by the clients of MFIs led to an increasein NPAs. MFIs and SHGs mainly meet the demands of the poorest and most exploited. Non-compliance / nonpayment of loans by the clients reduced the chances of getting more credit in the future.
- MFIs with much money could survive the situation, but the situation has become very difficult for small players.

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- The provision of new loans after the cash crisis is becoming increasingly difficult, so customers have no choice but to make use of the informal loan. People can go to borrow money from money lenders who give loans at high-interest rates and unfavourable terms.
- In Tamil Nadu, the suicide of farmers due to debt problems is almost a daily event. There have been some cases where farmers have had to borrow from local lenders at higher rates to pay MFIs since MFIs tend to be stricter on their debt collection dates.
- Financial repayments are compromised because most borrowers do not have bank accounts, which block the flow of credit.
- Demonetisation affectedthe rural economy, which is mainly based on money, is negatively affected as the highest denomination notes are not always practical. MFIs are allowed to act as commercial correspondents for banks, allowing them to accept old banknotes; this would mean more paperwork that would increase labour and time costs.
- Effective misuse and does not use technology for everyday activities. Global architecture for a cashless economy is yet to be incorporated, and there is a need to educate people to use it. Refunds got reduced to levels of up to 20%.
- Small politicians are evaluating the situation and diverting the poor and encouraging the poor and the ignorant not to repay the loans.
- It is also true that demonetisation has led to the opening of new bank accounts and to encourage the poor to opt for cashless transactions, thus promoting financial inclusion, but the lack of preparation has weakened the prospects for success.
- The part of outlays for collections decreased to 30% in the second week of December 2016. The main reason for this major decline in disbursements is due to the approach of MFIs that go from disbursements to collections and also adopted a wait-and-see approach.

Long term (Post demonetisation) challenges:

- MFIs should update and update their business model, through banks, smartphone payments, and e-wallets.
- The struggle to maintain market share in the current crisis can cause MFI credit standards to weaken.

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- The government's growing focus on digital payments and direct account payments (DTAs) may require a modification of the collection mechanism.
- People need to know the use of technology and must provide sufficient and secure infrastructure that meets their needs.
- The additional 60-day window of indulgence provided to postpone recognition of NPAs could be exploited by end consumers to defer payments that increase cash problems for MFIs intentionally.
- The cash crisis also emerged in some of the rapidly growing irregular MFI industry practices. These include the lack of diversification between the profiles of MFI borrowers, the increase in the individual size of microfinance loans, the concentration of most loans, the increase in the number of multiple loans for the same set of loans.
- To overcome these challenges after demonetisation, MFIs are increasingly seeking cashless outlays and withdrawals through Jan-Dhan accounts and leveraging technology.
- MFIs hold group meetings to inform borrowers about the impact on their credit profile due to non-payment, and the role of credit bureaus. Borrowers are educated to overcome any deceleration in their business activities and encourage banking habits in order to move to a non-cash-based model. Subjective evidence and media reports from different parts of the country in the first months after demonetisation have shown significant problems with the disbursement and repayment of the loan.

New RBI Regulations to Protect MFIs after Demonetization:

Microfinance establishments (MFIs), which offer little credits to poor people and the strays, look for easier obtainment governs as they battle to recoup advances after demonetisation.

The microfinance organisation arrange (MFIN), a self-administrative body, has gone to the Reserve Bank of India (RBI) to ease loaning norms that have gotten terrible after demonetisation for a long time to meet the prerequisite of least capital ampleness (CAR) of 15%. Capital ampleness is a marker of budgetary sufficiency communicated as the proportion among capital and hazard weighted resources. At the point when an MFI gets a bit of leeway, it comes back to the monetary record, prompting a higher CAR. If there is a misfortune because of expanded inventory and the credit portfolio keeps on rising, the CAR begins to decay.

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According to the RBI Regulations:MFIs must book half of an advance developing somewhere in the range of 90 and 180 days to cover the danger of default. For credits late for over 180 days, the aggregate sum of the advance needs to be reserved. Industry specialists said MFIs could bring about a credit cost of somewhere in the range of 8% and 10% in their all-out advance portfolio in this monetary year, which would harm their overall revenues.

In the aftereffect of the November-December demonetisation work out, neighbourhood political pioneers deceived borrowers in certain zones of Maharashtra, Uttar Pradesh, Madhya Pradesh and Jammu and Kashmir that their credits had got deferred, prompting a sharp drop in advance recuperations.

As indicated by a report distributed by India Ratings, all-out getting for the period from November to May extends somewhere in the range of 80% and 98%, contingent upon the level of centralisation of the credit in the influenced states. MFIs of medium and little size may require quick capital mixtures to stay above administrative least levels to alleviate the effect of misfortunes in the initial two fourth of the 2017-18 monetary year.

Jindal Haria, partner executive of monetary foundations in India Evaluations and research, said: "The adjustment in bookkeeping does not change the degrees of particular and fundamental hazard that they keep on looking in connection to unreasonable getting by borrowers, not the fuse of new borrowers into microfinance & geological extension." According to him, these establishments need to try and create limit in singular credit items and can increment up to 15% of their advance portfolios.

Findings

- Government has been putting forth attempts for building up the smaller scale financing establishment and these foundations, have improved in general salary and way of life of the needy individuals.
- These foundations have likewise made work openings in these retrogressive and immature regions.
- These establishments tend to help the poor provincial individuals building resources and verifying their vocation by serving different, financially inspiring plans. • The Self Help Group (SHG) Bank linkage plan and MFI's were seen as prospering, being helped by various pinnacle banks and monetary organisations and different household

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and global offices. However, needy individuals benefit administrations from non-institutional sources due to low openness and awkward provincial nature.

- Many MFI's are practical in little regions, and all things considered,the immersion of these establishments can be seen which has brought about the unseemly fund.
- There is a requirement for the development of microfinance and the foundations for building up a comprehensive budgetary framework.
- The availability of the MFI's ought to be expanded.
- Microfinance as the capacity ought to be a joined capacity the NGOs, SHGs, MFIs and the business banks. • Efforts ought to be made to modify and extend the extent of the exercises of MFIs.
- Various projects ought to be led by MFIs and NGOs for the consciousness of country needy individuals for benefiting the credit and advances.
- MFIs ought to likewise direct projects for country individuals for opening up new endeavours in different spaces.

Conclusion

The investigation showed that microfinance assumes a critical job in the financial advancement of provincial individuals of the territory of Jammu and Kashmir and helps the destitute individuals in expanding their degree of salary, way of life just as in the upliftment of the rustic individuals. The investigation will be closed with the accompanying focuses.The microfinance certainly has a constructive effect on the expectation for everyday comforts of individuals and in easing the destitution in the territory. Microfinance establishments have to give miniaturised scale and transient advances to the needy individuals all together they start a private company which brings about the upliftment of the financial status of provincial individuals.

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