REVIEW OF RESEARCH
IMPACT FACTOR : 5.7631(UIF) UGC APPROVED JOURNAL NO. 48514 ISSN: 2249-894X
VOLUME - 8 | ISSUE - 4 | JANUARY - 2019

ROLE OF MICRO-FINANCE INSTITUTION IN FUNDING SMALL AND MEDIUM ENTERPRISE

Dr. Jagdish Biradar
Asst. Professor , Veerappa Nisty Engineering College , Shorapur.

ABSTRACT :
Rural economy forms the backbone of most developing countries. That being said, the problem is that significant developments in infrastructure are a little difficult to come by; thereby birthing a dearth of economic viability. In such a situation, microfinance institutes are often the only significant pathway towards alleviation of poverty, thus bettering economic condition.

KEYWORDS : *Rural economy , developing countries , economic condition.*

INTRODUCTION

Small and medium enterprises (SMEs) have long been one of the more chief sources of employment and livelihood for the citizens in most developing countries, including India. On the other hand, microfinance is crucial, when it comes to escalation of business growth by way of generating steady working capital.

So much so, that microfinance has been solely instrumental in catapulting many small businesses to the next league of augmented productivity and increased turnover.Listed below are some ways in which microfinance institutions can help fund SMEs based out of developing nations:

BY PROVIDING EASIER ACCESS TO CREDIT FACILITIES

Microfinance institutions serve as primary credit and lending facilities for both low-income individuals and small and medium enterprises that fall shy of accessing easy loans from the organized financial sectors.

Moreover, most of these institutions provide micro loans and other financial services that attach affordable rates of interest and entail simpler procedures and minimal documentation. Here, the financial performance of SMEs, among other factors, depends on the ease with which they can avail loans from institutions of microfinance, essentially indicative of a symbiosis.

BY IMPLEMENTING INCLUSIVE POLICIES

SMEs often hire unskilled and semi-skilled labourers - many of whom belong to the economically deprived and marginalized categories - to carry out their routine operations. Microfinance lenders collectively target aspirations of these sections of people, thereby developing business models aimed at allaying poverty and improving their standard of living.

BY AIDING BUSINESS EXPANSION

Probably the most significant function of microfinancers is offering SMEs a blueprint for business expansion and assistance to expand their operational footprint beyond the traditional strongholds. This primarily happens by way of aid to SMEs to increase the number of outlets, access more uncharted business areas and eventually become formidable contenders in the market.

Moreover, a group of people, sharing common aspirations and interests, can avail credit facilities from microfinancing houses. What happens here is that should one of the participants default at the time of repayment, there is usually a chance that the share would be distributed and shouldered by the other members of the group.

This way, microfinancers usually find it relatively easier to recover their loans; something that leads them to lend further, thereby allowing SMEs to utilize the funds, up their productivity and increase profits in the process.

MICROFINANCE INSTITUTES TEND TO ENJOY BETTER CREDIBILITY

You might attribute it to the cooperative attitude of microfinancers, but SMEs have a tendency to trust microfinance houses more. Another reason behind this might be customized financial products that are in tune with the exact demands of SMEs and the nature of their businesses.

To sum up

Developing nations have, beyond much doubt, embraced the concept of microfinance loans and microfinance institutions, and it is no surprise that these micro lending houses have come to be the lifeline of SMEs based out of these countries. It is with the help of micro loans, that many deprived sections of the society have been able to integrate with the mainstream.

With a huge segment of the world's underprivileged, India is likely to have a large possible demand for microfinance. For this reason, itmakes sense to consider the changing face of microfinance for rural developmentin India.

Microfinance refersofferingexceptionallysmall loans to very poor families with the purpose of engaging them intoproductiveactivities.

Micro finance bank is an institution that extends small loan ormicro

finance, toapplicant who typicallybelongsto the lowest group of society

Loansare extended to borrower toallow them to initiate a business,repair their homes and improve the general living condition of their families and the community

Small medium enterprises (SME's) plays a major role in economic development through creating employment, eradicating poverty and generating income. On the other hand, Microfinance is an important tool that promotes the business development and acts as a source of business growth through improving working capital. One of the primary reason for the expansion of small business into medium and further to large is due to microfinance.

Microfinance is a money related asset for low-pay people and little medium undertakings for providing credits, reserve funds and other monetary administrations to poor. In India microfinance works through two channels: a) Self-help gathering bank linkage program: where a little gathering of 10-20 ladies or men make little reserve funds through commitment occasionally and start loaning. They even get connected to banks, banks loan to self improvement gathering subsequent to checking their financial soundness. b) Microfinance foundations: which is an association that gives microfinance administrations from little non-benefit association to bigger banks.

Access to fund is the serious issue looked by miniaturized scale ventures, to whom business banks have customarily focused their loaning fundamentally to enormous formal endeavors which have the aptitude of working together and have insurance. They pass up a great opportunity little endeavors as they need ability and more dangerous speculation. In this way it is watched absence of appropriate access to back as one of the components preventing the SMEs development. So to encourage financing the approaches of microfinance foundations have been surrounded.

Microfinance organization developed as an honorable substitute for casual credit and a powerful instrument for giving assets, money related assistance for the development of SME's. Simple availability of administrations offered by microfinance foundations directly affects the business, benefit and physical resources improvement of SME's.

MSMEs in India have the tendency to serve as sources of livelihood to the poor, create employment opportunities, generate income and contribute to economic growth. Micro-finance, on the other hand, according to research scholar is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector.

In India, Self –helpGroups or SHGs represent a unique approach to financial intermediation. The approach combines access to low-cost financial services with a process of self management and development for the women who are SHG members. SHGs are formed and supportedusually by NGOs or (increasingly) by Government agencies. Linked not only to banks but also to wider development programmes, SHGs are seen to confer many benefits, both economic and social.

CONCLUSION

This study attempts to empirically ascertain the effect of MFIs on SMEs. Positive and significant relationship has been established between MFIs loans and SMEs performance. The study confirms the positive contributions of MFIs loans towards promoting SMEs market share, production efficiencies and competitiveness. Although MFIs in India are faced with insufficient funds problems which militateagainst their efforts to grant sufficient loans to SMEs, yet their tendencies to augment the financial needs of SMEs is considerably acknowledge. Furthermore, it has been unveiled that Government policies and programs designed to develop SMEs in India are ineffective and thereby need to be re-conceptualized.

Apart from provision of tax incentives, and financial supports, it is recommended that Government should try to provide sufficient infrastructural facilities such as electricity, good road network and training institutions. Further study should be conducted on how best SMEs can make use of equity finances such as Venture Capital, Business Angels and other alternative sources of finance available to SME.

REFERENCES

[1] Ahmad F.U.A. & Ahmad R.A.B. Islamic Microfinance: the Evidence from Australia[J]. Journal of Humanics, 25(3): 217-235

[2] CBN (2005), Central Bank of Nigeria Statistical Bulletin

[3] CGAP, the Micro Banking Bulletin: Focus on Productivity, 2006 (6)

[4] Cook, P. & Nixson, F. Finance and Small and Medium-Sized Enterprise Development, 2000 [5] Cressy, R. & Olofsson. European SME Financing: An Overview[J]. Small Business Economics.