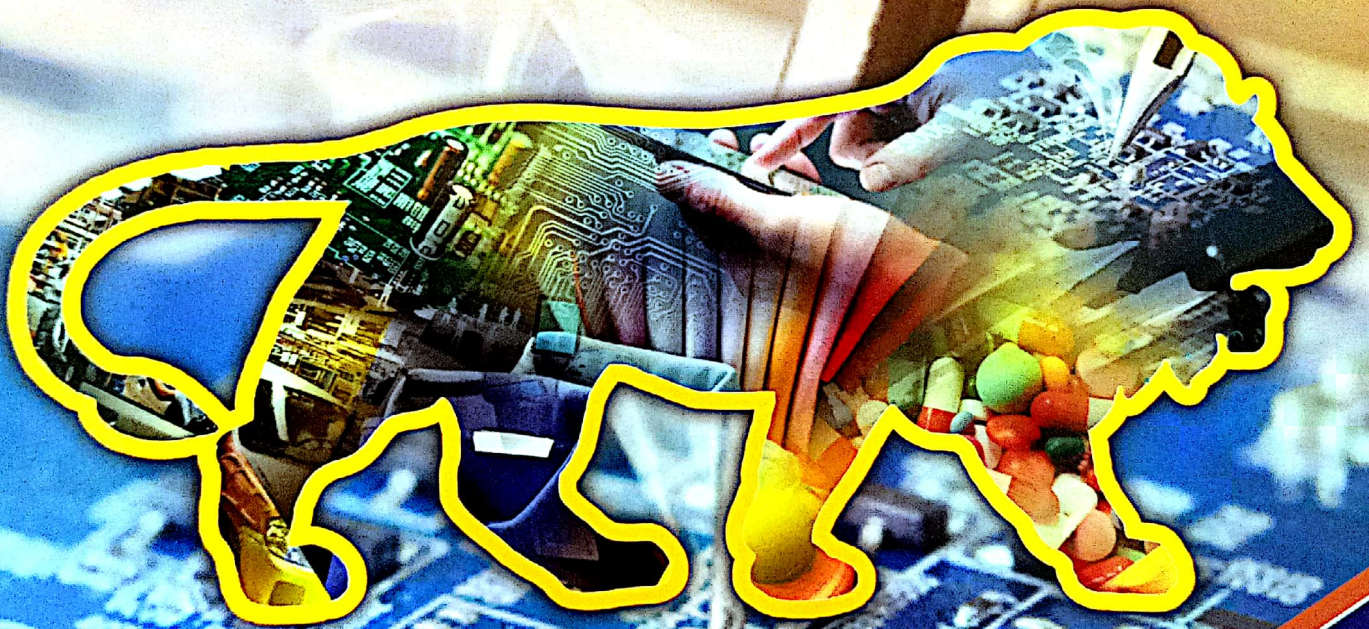


MAKE IN INDIA

Rejuvenating Indian Economy for Sustainable Development



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First Impression: February, 2017

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Make in India: Rejuvenating Indian Economy for Sustainable Development

ISBN: 978-93-86256-44-7

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Published by

EXCEL INDIA PUBLISHERS



91 A, Ground Floor

Pratik Market, Munirka, New Delhi-110 067

Tel: +91-11-2671 1755/ 2755/ 3755/ 5755

Fax: +91-11-2671 6755

E-mail: publishing@grouppexcelindia.com

Web: www.grouppexcelindia.com

Typeset by

Excel Publishing Services, New Delhi-110 067

E-mail: prepress@grouppexcelindia.com

Printed by

Excel Printing Universe, New Delhi-110 067

E-mail: printing@grouppexcelindia.com

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Role of Micro Finance Institutions (MFIs) on Providing Financial Assistance to Small Scale Industries

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Abstract—In India S.S.I. sector is used as an efficient tool of progress. The recent data available indicate that the S.S.I. sector shares 36% of the country's total export and contributes 9.50% GDP, employs nearly 9 lakhs per annum. But still many small industrial units are failed because of less capital. Formal financial institutions failed to reach the poorer sections of the small industry due to informational asymmetry, moral hazard and enforcement problems. The necessity of having alternative industrial credit systems which will solve the problems of small scale entrepreneurs is clearly warranted. Micro finance institutions are seen to have characteristics that help solve the problems moral hazard and adverse selection, which other institutions failed to do. Microfinance emerged as a noble substitute for informal credit and an effective and Powerful instrument for poverty reduction among people, who are economically active, but financially constrained and vulnerable in various countries. Microfinance covers a broad range of financial services including loans, deposits and payment services and insurance to the poor and low-income households and their micro enterprises. In India small scale industries suffer from a great deal of indebtedness and are subject to exploitation in the credit market through high interest rates and lack of convenient access to credit. They need funds for satisfying their working capital needs on a day-to-day basis as well as long term needs. So the need for financial assistance and business development services for the micro and small enterprises is essential to improve poverty for consistent economic growth. The focus of the study is to find out whether these micro and small enterprises in and around Nasik city of Maharashtra were able to access Micro Finance Institutions (MFIs) for capital loans and services and utilize it and have benefited from the credit scheme of microfinance banks for their growth and development. Primary data was obtained via interviews conducted in 50 small businesses across Nasik cooperative industrial states with their responses. This study suggests the recapitalization of microfinance banks to enhance their capacity to support small business in growth and expansion and also to bring to the knowledge of the management of microfinance banks and institutions the impact of the use of collaterals as a condition for granting credit to small businesses.

Keywords: Microfinance, Micro Finance Institutions, Small Scale Industries

INTRODUCTION

Access to financial services is a key element in the process of socio-economic empowerment of the financially under-served sections of the society. Microfinance refers to an array of financial services, including loans, savings and insurance, available to poor entrepreneurs and small business owners who have no collateral and wouldn't otherwise qualify for a standard bank loan.

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses (Robinson, 1998).

Microloans are given to those living in still-developing countries who are working in a variety of different trades, including carpentry, fishing and transportation. Microloans typically are not more than several hundred dollars. The goal of micro financing is to provide individuals with money to invest in themselves or their business to help get them out of poverty. When providing loans, micro financing institutions do not require collateral, but do insist that the loan is repaid within six months to a year.

Microfinance in India started in the early 1980s with small efforts at forming informal Self Help Groups (SHGs) to provide access to much-needed savings and credit services. From this small beginning, the microfinance sector has grown significantly in the past decades. Government institutions like the Small



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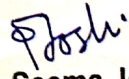
"Role of Micro Finance Institution (MFI) on providing financial
at National conference on assistance to small scale
Industries."

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Rejuvenating Indian Economy for Sustainable Development

held on Friday, 10th February 2017.


Dr. R. R. Chavan
Convener


Prof. Seema Joshi
Director