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Abstract- Microfinance refers to small savings, credit, insurance and remittance services extended to socially and economically disadvantaged segments of society. It is the provision of financial services to low income, poor and very poor self-employed people. These financial services generally don't include savings and credit but also include other financial services such as insurance and payment services. Further, microfinance is a deliberate attempt made by the credit markets to improve the access to small deposits and loans for poor households neglected by major financial institutions. Microfinance institutions do not require any collateral for their loans. In fact these MFI's create incentives for each individual within the group to repay their loans.

The world bank had estimated that more than 16 million people are served by some 7000 microfinance institutions all over the world which means that around 500 million families benefits from these small loans making new business possible. The Government of India and the RBI have a stated goal of promoting financial inclusion. According to recent RBI Estimates, there are over 450 million "unbanked people or group (budding entrepreneurs)" in India, most of who live in rural areas. The term "unbanked" refers to people who have no access to formal financial services, but rather must rely on either family, or informal providers of finance, such as the village moneylender. It is also generally agreed that relying on these limited resources of village moneylenders exposes the poor to coercive lending practices, personal risks and high interest rates, which can be a much as 150 percent. Therefore the Indian Government and the RBI have a policy of "financial inclusion". As part of this policy, the government requires Indian banks to lend to "priority sectors", one of which is the rural poor. Until recently, banks were happy to lend money to MFI's who would then on-lend funds, primarily to poor groups across rural India. The banks have welcomed this policy because historically they tended to charge MFI's average interest rates of 12-13 percent and benefited from 100 percent repayment rates. Thus, by lending to MFI's, banks have been able to meet their "priority sector" lending requirements with what historically has amounted to a risk-free and very profitable arrangement. Therefore, in the present study an attempt has been made to examine the role of Microfinance Institution (MFI's) in the development of SME's in the Kashmir division with a view to offer suggestion for improvisation of the same.

Keywords: microfinance, MFI's, SME's, credit market, financial stability, kashmir division.

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I. Introduction

Microfinance is not a new concept. Small micro credit operations have existed since the mid 1700's. Microfinance is "the provision of financial services to low-income poor and very poor self-employed people". These financial services generally include savings and credit but also include other financial services such as insurance and payment services. Microfinance is "the attempt to improve access to small deposits and small loans for poor households through MFI's which is otherwise neglected by banks". Therefore, Microfinance Institution (MFI's) involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. These sectors have now become a worldwide movement, a development activity and as a way of helping poor people to come out of poverty (Ditcher, 2006). Buckley (1997) captures its prominence role in development of economies. Micro finance institutions like conventional financial institutions charge their lenders interests on loans, but, these interest rates are generally lower than those offered by normal banks. The World Bank estimates that there are more than 500 million people who have directly or indirectly benefited from micro finance related operations. Within India the micro finance movements in Western and Southern India have received most attention, both in the media as well as in academic research. Andhra Pradesh, in particular, has witnessed a remarkable growth in micro finance activities and its success stories have been widely reported as well.

MFI's include village banks, cooperative credit unions, state owned banks, and social venture capital funds to help the poor. These institutions are those that provide savings and credit services for small and medium size enterprises. They mobilize rural savings and have a simple and straight forward procedure that originates from local cultures and are easily understood by the population (Germidis et. al., 1991). It should be noted that microfinance is not a panacea but it is a main tool that foster development in developing countries. It is known worldwide that the poor cannot borrow from the banks. Banks do not lend to them because they do not have what is required to be granted for loan (Mortgage)

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and suffer due to poor financial conditions. The lack of financial power is a contributing factor to most of the societal problems. These problems emanate from poverty and it is known that with poverty one is bound to suffer so many consequences ranging from lack of good health care system, education, nutrition. Microfinance has proved this bank concept to be wrong. They target the poor who are considered risky but the repayment rate turns to be positive as compared with the regular commercial banks (Zeller and Sharma, 1998).

Researchers have viewed microfinance in different dimensions. Microfinance gives people new opportunities by helping them to get and secure finances so as to equalize the chances and make them responsible for their own future. It broadens the horizons and thus plays both economic and social roles by improving the living conditions of the people (Microfinance Radio Netherlands, 2010). These improvements are in a nutshell to alleviate poverty, and increase the development of small and medium size enterprises SME's and focusing mostly in the rural areas. A positive relationship has been documented between small and medium enterprises development and economic growth in developed countries (Harris and Gibson, 2006; Monk, 2000; Sauser, 2005; Birch, 1987; 1981). Since the 1980s, almost all countries implemented economic and financial reforms to achieve macroeconomic stability and improve economic governance. In many countries these reforms have led to greater macroeconomic stability, improved fiscal and monetary management as well as better, though still unsatisfactory, overall economic performance.

II. Literature Review

Micro-finance refers to small savings, credit, insurance and remittance services extended to socially and economically disadvantaged segments of society. In the Indian context terms like "small and marginal farmers", "rural artisans" and "economically weaker sections" have been used to broadly define micro-finance customers. The micro-finance has been further defined as "provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas, for enabling them to raise their income levels and improve living standards". Further, it is the evolving and impacting theme for the millions of rural and urban poor across the length and breadth of India arousing hope and opportunity to millions for raising their standard of living. In the literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. "Microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFI's supplement the loans with other financial services (savings, insurance, etc) to help in the development of SME's". Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services.

Microfinance is a broad term that describes banking and financial services provided by poverty-focused financial institutions (often referred to as microfinance institutions or "MFI's") to poor populations that are not being served by mainstream financial organizations. Commercial banks support microfinance operations directly (by providing financing or equity investment to existing MFI's) and indirectly (by creating branches or a range of microfinance products and services). Since its inception in the 1970s, microfinance has been based on the principal that the working poor need alternatives to what had previously been the only source of borrowed funds, namely informal lenders who charge excessive interest. MFI's primarily provide small loans to their clients (although some MFI's also offer additional services, including include micro-deposit and micro-insurance products). Unlike commercial banks, MFI's typically do not require borrowers to provide collateral for their loans. Some apply a creditworthiness standard based on the performance of a group of borrowers by initially extending a loan to an individual and then lending money to additional members of the group if that individual proves to be a reliable borrower. In effect, the MFI's create incentives for each individual within the group to repay their loans, as the failure to do so will jeopardize the ability of the rest of the group to obtain credit. Others lend directly to individuals without tying credit to group performance. Srinivas, (2005) in his study explains that without adequate bank finance, SME's cannot acquire or absorb new technologies or cannot expand and compete in global markets or even strike business linkages with larger firms. At the same time banks cannot consider the financing of SME's as a viable option unless their priorities are addressed by SME's. SME's should be assisted largely by public initiatives involving participation of the banking industry. Basu (2007) also tries to analyse the role and problems of small-scale industries and their importance in the economic development. Mubashir (2012), in his research stated that Jammu and Kashmir like other states of country is primarily an agrarian state. Industrially, Jammu and Kashmir is one of the backward states in the country on account of inadequate infrastructural facilities on account transportation, electricity, topography and other constraining factors. Though the state is very rich in natural and human resources, yet these have not yet been fully exploited for establishing an industrial base which could trigger economic spin off for the majority of people. The Jammu and Kashmir State accounts for 1.04 percent of the total population of the country but its contribution to the

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national income are just about 0.7. In this backdrop micro finance has emerged as one of the tools to in Jammu and Kashmir State for poverty mitigation against economic backwardness and political turmoil being witnessed over two decades now. The study concludes that there is availability to and awareness of micro finance among the beneficiaries, but it varies with different micro finance services. Khurshid (2013) further added that The Jammu and Kashmir Bank has been playing significant role for the upliftment of poor, to raise the living standard of masses and also to mitigate their socio-economic conditions to achieve balanced economic growth with social justice in the state of Jammu and Kashmir via its micro finance services. Shafqat and Vikas (2014) make an attempt to outline the prevailing condition of the Microfinance in Jammu and Kashmir State in the light of its emergence. The prospect of Micro-Finance is dominated by SHGs (Self Help Groups) - Banks linkage Program. Its main aim is to provide a cost effective mechanism for providing financial services to the poor. This paper discovers the prevailing gap in functioning of MFI's such as practices in credit delivery, lack of product diversification, client consumption and individual loan demand with lack of mitigation measures, less thrust on enterprise loans, collection of loans and highest interest rate existing in micro finance sector. These are conditions, which tell us that the circumstance is moving without any direction. Finally this paper accomplishes with practicable suggestions to overcome the issues and challenges associated.

a) Research Objectives

1. To study entrepreneur preferences towards MFI's schemes with respect to the growth of their small scale industries;
2. To examine relative importance of different attributes while responding to the products that does support SME's to grow;
3. To study the effect of products in MFI's especially in developing SME's;
4. To determine what MFI's are doing in helping to develop SME's in Kashmir division; and
5. To study on the basis of study results ways and means of improving the development of SME's through micro finance in Kashmir Division.

b) Research methodology

This section provides the methods and procedures which were followed in conducting the study. These include research design, sample design and size, the research instruments for the data collection, the sampling technique and method to be used for data analysis.

c) Research Design

An exploratory research design was used in the study to know the impact of microfinance on SME's in Kashmir division. Explanatory designs have been documented (Mugenda and Mugenda, 2003 and Kothari, 2002) as best method for social scientists whose interest is collecting original data for the purpose of describing a population, which is too large to observe directly.

i. *Sample Design*

The Population of this study constituted whole Kashmir division but due to time constraints the study was restricted to three districts namely Pulwama, Ganderbal and Bandipora where the existence of SME's is more than other districts. Among these three districts, the researcher interviewed 120 respondents with the help of a structured schedule. Convenience sampling technique was used to collect data from respondents.

ii. *Data collection instruments and Procedures*

The researcher used primary sources to collect data for this study due to its nearness to truth and ease for control over errors. A structured schedule was used to collect the data from the respondents; the schedules were administered by the researcher. This enabled the researcher to explore all aspects relating to role of MFI's in enhancing growth of SME's.

iii. *Data Analysis and Presentation*

Primary data collected was coded and analyzed with the help of the Statistical Package for Social Sciences (SPSS). The results were presented using tables for ease of understanding. The collected data was analyzed using descriptive statistics such as frequencies and percentages. Descriptive statistics allowed for the generalization of the data so as to give an account of the characteristics of the population as represented by the sample.

d) Findings and Discussions

i. *Granting other things are equal, to what extent would you wants your business to grow*

The objective behind the formation of this question is to know to what extent the entrepreneur wants his business to grow. The figure shows that majority of the respondents (34.5 percent) wants to setup many branches in Kashmir division, 21 percent wants to setup more branches in state, 38.7 percent wants to enlarge their present premises and 6.67 percent wants to stay contented with the present size of their business (Table 1).

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Table 1: Business to grow

Particulars	Frequency	percentage
Setup many branches in Kashmir division	41	34.17
Setup more branches in my state	25	20.83
Just enlarge my present premises	46	38.33
Stay contented with the present size	8	6.67

ii. *Have you ever thought of any micro finance institutions as institutions capable of assisting your small scale business to grow?*

The above question has been formed to know that do an entrepreneur had ever thought of micro finance institutions as institutions capable of assisting their small scale businesses to grow. From the above result, it is clear that out of 120 entrepreneurs 97 percent entrepreneurs are interested to take the help of MFI's to enlarge and nurture their business (Table 2).

Table 2: Institutions capable of assisting SME's

Particulars	Frequency	percentage
Yes	97	81.5
No	23	19.17

iii. *If yes, did this idea remain only in thought or you acted on the idea*

It is revealed form the study that 45.4 percent have actually acted on the idea whereas the remaining respondent has thought only (Table 3).

Table 3: Acted on this idea or not

Particulars	Frequency	percentage
Thought only	46	38.33
Acted on the idea	54	45.4

iv. *Do you know of any product that does support small scale business to grow?*

The study reveals that 58.33 percent of the entrepreneurs are aware about the products that do support small scale business to grow, while as 36.67 percent of this population aren't educated about this topic and remaining have no information (Table 4).

Table 4: Products that support SME's

Particulars	Frequency	percentage
Yes	70	58.33
No	44	36.67
Missing	6	5

v. *If yes, name the product*

The results clearly show that working capital as a product provided by MFI's are quite more familiar than other products which are offered by these institutions (Table 5).

Table 5: Name the product

Particulars	Frequency	Percentage
Working Capital	50	41.67
Temporary Overdraft	11	9.167
Term Loan	11	9.167
Micro Credit	4	3.333
No information	44	36.67

vi. *What products would you have solicited from the MFI's to help your SME's?*

The study revealed that respondents are more interested in suppliers guarantee from micro finance institutions to help their small scale business; in this situation 26.1 percent of the entrepreneurs wants to have suppliers guarantee (Table 6).

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Table 6: Solicited from the MFI's to help your SME's

Particulars	Frequency	percentage
Micro credit	18	15
Business accounts	29	24.17
Temporary overdraft	8	6.667
Suppliers guarantee	32	26.67
Business advice and support	4	3.333
No information	29	24.17

vii. *Are there any special reasons why you have not approached any MFI's for support?*

The results on Table 7 reveals that lack of trust is the main reason that why SME's not approach any micro finance institution for credit followed by high interest rates.

Table 7: Have you approached to MFI's

Particulars	Frequency	percentage
Lack of trust	37	31.1
High interest rates	26	21.8
Do not need their support	6	5.0
Others specify	1	0.8
On information	49	41.2

viii. *Which MFI's schemes would you like to help you to grow?*

Answer of this question will give idea about the MFI schemes that entrepreneurs would like to help to him to grow and the data shows that 31.6.7 percent of the entrepreneurs are quite ok with Prime Ministers employment generation scheme followed by MSMES which are quite a reliable source of MFI's as revealed by respondents (Table 8).

Table 8: Schemes help to grow

Particulars	Frequency	percentage
Prime ministers employment generation scheme (PMEGS)	38	31.67
Micro small medium enterprises scholarship (MSMES)	31	25.83
Kissan credit card (KCC)	1	0.833
Others	8	6.667
No information	42	35

ix. *Do the above products have any benefits to you?*

The data in Table 9 reveals that majority of respon-dents have bene-fited from the products offer-ed by different microfinance institutions (MFI's).

Table 9: Products have any benefits

Particulars	Frequency	percentage
Yes	72	60
No	19	15.83
No information	29	24.17

x. *If, yes name some of the benefits*

Table 10: Name some benefits

Particulars	Frequency	percentage
Business expansion	47	39.17
Ease of assessing loans	36	30
Building up collateral base	15	12.5
Good record keeping	21	17.5
Others	1	0.833

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The Table 10 clearly reveals that the benefit from MFI's help these SME's to expand their business and also help them to get loan in easy procedure than other financial institutions.

x. *If no, why are you still using the package?*

Table 11: Still using the package

Particulars	Frequency	percentage
No alternative	102	85
Still indebted to them	11	9.167
Have planned to stop	3	2.5
Others	4	3.333

The results on Table 11 clearly reveal that SME's are bound to get financial help from these MFI's as there are no alternative available to them. Further, MFI's provide loans to these SME's in easy procedure and are not asked for any collateral as is case with other financial institutions.

xii. *Have you ever faced or do you observed any problems or challenges likely to be encountered in your dealings with these MFI's.*

The data on Table 12 clearly states there are some problems faced by an entrepreneur while dealing with micro finance institutions (37.8 percent)

Table 12: Problem and challenges likely to be encountered

Particulars	Frequency	percentage
Yes	45	37.8
No	44	37
No information	30	25.2

III. Conclusion

The primary goal of microfinance is to help the poor to increase their income, build businesses and acquire a financial cushion to reduce their vulnerability to financial shocks in the future. Research has shown that each of these factors lead to other improvements in the lives and conditions of the poor, including increased access to healthcare and education, better nutrition, personal empowerment for women and a safety net from unanticipated financial crises that can otherwise destroy families' ability to break the poverty cycle. Microfinance can also help build permanent local financial institutions that attract domestic savings, which can be used to make loans, and provide other services to the poor.

Microfinance institutions are seen as an asset to the developing countries. This study attempts to empirically ascertain the effect of MFI's on SME's. Positive and significant relationship has been established between MFI's and SME's performance. This study concluded that an entrepreneur wants their business to grow with the help of MFI's and these are the institutions which are seen as institutions capable of assisting them for financial help. Further, the study revealed that MFI's should provide those services that are tailored to meet the needs and aspirations of the local inhabitants and emphases are towards the poor. The products and services put forth to the members are not up to their expectation as is revealed by the data. These problems range from poor business skills, lack of financial intermediation services, and the lack of markets survey, awareness programmes, technology etc. Lack of trust is also a problem faced by SME's while dealing with these MFI's.

a) Suggestions

After analyzing the entire study on role of micro finance in developing small scale industries with repect to both the primary and the secondry data, the following recommendations and suggestions can be put forth.

1. Most of the respondents were not actually aware about the products and schemes offered by micro finance institutions, so it was suggested to create more and more awareness programmes among the locals of Kashmir Division.
2. The interest rate are not so impressive, therefore, MFI's should consider these rates while attract the entrepreneurs.
3. SME's are facing many hurdles while getting the financial help from MFI'S. Therfore, these financial instituion should work to make the procedure to loan very easy and comfortable.
4. Most of the entrepreneurs do not count micro finace as a reliable instrument due lack of trust. So, micro finance institutions should provide different motivational programmes to these budding entrepreneurs.

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