In the current political and economic environment, jobs are at the center of political debates in both developed and developing economies. There are many expectations that small enterprises can create new jobs, recent studies also suggest that small enterprises contribute more to the employment share in low-income economies than in high-income countries. International development agencies want to promote and finance small enterprises while the G-20 is also committed to improving access to finance for small businesses in developing countries. Embedded in these efforts is the assumption that access to finance is a key constraint to small business expansion. In this concluding chapter, we examine the experience and role of microfinance institutions (MFIs) in serving small enterprises.

The basic idea of microfinance is to provide credit to the poor people who otherwise would not have access to credit services. Micro-credit programme extend small loans to very poor people for self-employment projects that generate income and allow them to take care for themselves and their families. This programme is working in many developing countries.

Microfinance has been recognized as a development tool for sustainable rural development by alleviating poverty and facilitating empowerment of the poor with the main focus on rural women. In all developing countries it is now recognized that sustainable development is possible only through the active participation of local people and community based organizations which again is possible only through
microfinance. Facilitating the formation of informal groups, simplification of procedures and systems, democratic functioning and addressing the social and economic needs of women are the major achievements of the SHG movement and it is the best suited model for India.

Micro finance groups emerged not only to address the limitation in the rural credit markets but also the concerns relating to poverty alleviation and women empowerment. In these groups, the transaction costs arising out of three main problems (namely, selection, monitoring and repayment) of the credit market can be reduced through familiarity of the members, small size of the groups and repeated interactions. Since these are small groups and members of such groups belong to similar socio-economic background, they can undertake collective action in the selection of borrower, monitoring the utilisation of loan and ensure timely repayment.

Micro-finance groups arrive at certain rules and regulations to ensure that the mechanisms concerning contractual relations are in operation. Similarly, the members are provided with adequate incentives to promote co-operation or to avoid the emergence of non-co-operative outcome.

Institutional mechanisms and incentives involved in the selection of borrowers, monitoring the utilisation of the loans and ensuring repayment of the loans are, thus, important in microfinance programmes. The incentives and mechanisms for the selection of borrowers aim to rectify the problems of adverse selection, whereas, monitoring of the utilisation of loans looks into moral hazard problems and enforcing repayment tries to avoid the chances of free rider problems.
Financial system helps to increase output by moving the economic system towards the existing production frontier. This is done by transforming a given total amount of wealth into more productive forms. A financial system helps increase the volume of investment also. The financial system facilitates transfer of funds, through financial institutions, financial markets, financial instruments and services. Financial institutions act as mobilizers and depositories of savings, and as purveyors of credit or finance. They also provide various financial services to the community. They act as intermediaries between savers and investors. All banks and many non-banking institutions also act as intermediaries, and are called as non-banking financial intermediaries (NBFI). Financial institutions are divided into the banking and non-banking ones.

Financial needs of small businesses are diverse and context specific. Thus, generalizing the results of the few market studies available is risky, but some patterns seem to be emerging regarding small business needs. In the early stages of the business life cycle, small firms in developing countries often depend on informal sources of funding and have basic needs, such as managing cash flow through short-term loans and basic savings accounts.

The need for a savings buffer can be even more acute, because income is often irregular while business partners can be unreliable. As very small businesses grow, their needs extend beyond short-term lending and savings into other financial products, such as long-term debt, current accounts, transfers, and payments. Small businesses also have many nonfinancial needs that are often unmet.
Many financial service providers serve small enterprises in developing countries, including commercial banks, cooperatives, MFIs, and others. These providers have different capacities and motivations, and target different specific sub segments within the small business landscape. Larger financial service providers, including commercial banks that want to serve small businesses, tend to focus on firms that are larger and formal. On the other hand, MFIs usually focus on enterprises that are smaller and often informal. Moving from the micro market into the small business market requires different staff capacities, management systems, and risk assessment tools.

Small businesses have unique needs, typically different from larger companies, but often different from one another. MFIs need to invest in getting to know this new target group well and employ specific tailored approaches. MFIs will need to conduct market studies, mine available data to learn from their current portfolio or conduct primary research, and use direct observation. A deep understanding of customer needs and market demands is critical to the segmentation process.

Opting to provide financial services to small businesses is a strategic decision that should be made at the highest level of management. Hence, it requires managerial commitment to the process of introducing a new business line (not just offering a new product) and careful planning. It can entail creating a dedicated small business unit separate from the microfinance department. However, smaller institutions or those that do not cover the wider spectrum of enterprises can have simpler structures that do not include separate units exclusively for small business lending. In any case, the MFI needs to ensure that microfinance officers who are to become
small business officers are trained with a thorough understanding of the differences between the two market segments and products offered.

Small business loans involve larger amounts and greater complexity, so risk assessment requires thorough analysis, due diligence, and number crunching. Credit rating and scoring tools can help MFIs manage the risk better, though they face a challenge where large samples are not available to construct a model.

Therefore, financial institutions that are new to the small business lending market may not have the data needed to develop a sound credit scoring system. More often, financial institutions tend to apply modified scoring systems where they use the experience gained on the ground to develop a quick set of loan assessment parameters for different groups of loans.

The MFI will also need to develop specific training for loan officers, moving from a “character only” lending judgment, as used for many microfinance lending decisions, to one that highlights first cash flow and second collateral or guarantor forms of repayment when making a small business lending decision.

The track record of MFIs serving small businesses is mixed, and providers should not add this new segment to their micro business without acquiring new data, capacity, and tools. MFIs are increasingly interested and aware of the need to improve their capacity to serve the small business market. Also, many networks and funders, private and public, are interested in helping MFIs improve their readiness to serve small enterprises.
The role of MFIs will also depend on the context, including the availability of other service providers. Analyzing the competitive environment is another important step that will help identify the MFI’s competitive advantages and priority market segments.

Despite many challenges, MFIs might bring important advantages to the small business market. Compared to commercial mainstream banks, for example, MFIs may have closer relationships with their customers, making it easier for them to overcome the “opaqueness” of small business clients.

Another advantage is that MFIs often have faster lending procedures and require less collateral than their competitors. Finally, MFIs can reach customers who do not have access to banks or who face serious obstacles, such as their own informality or high bank fees.

Although women’s access to financial services has increased substantially in the past 10 years, their ability to benefit from this access is often still limited by the disadvantages they experience because of their gender. Some MFIs are providing a decreasing percentage of loans to women, even as these institutions grow and offer new loan products. Others have found that on average women’s loan sizes are smaller than those of men, even when they are in the same credit program, the same community, and the same lending group. Some differences in loan sizes may be a result of women’s greater poverty or the limited capacity of women’s businesses to absorb capital. However, they may also indicate broader social discrimination against women, which limits the opportunities open to them raising the question of whether micro enterprise development programs should do more to address these issues.
Sustainable rural development is the development of weaker sections in the rural areas, through productive self employment in the form of micro enterprises or income generating activities in agriculture, animal husbandry or in diversified activities for their sustainable livelihood through their skill development, enhanced self confidence and improved awareness in education, health, food and nutrition and environment. Sustainable rural development also emphasizes the empowerment of people, capacity building through improvement in knowledge and awareness and their increased participation in rural democratic institutions for infrastructure and social development.

In well-run microfinance programs, there is a relationship of respect between the provider and the client that is inherently empowering. As a consequence, microfinance has become a central component of many donor agencies’ and national governments’ gender, poverty alleviation, and community development strategies. Several studies and the experiences of a number of MFIs have shown, however, that simply putting financial resources in the hands of poor women is not enough to bring about empowerment and improved welfare. In this study we find that although microfinance does not address all the barriers to women’s empowerment, microfinance programs, when properly designed, can make an important contribution to women’s empowerment.

The study proved that there is improved credit availability through the banking network to the rural women, who so far remained out of the institutional credit delivery. Most of the respondents informed that they started micro enterprises or income generating activities in agriculture and allied activities such as rearing sheep, goat and milch animals.
Considerable number of respondents started diversified income generating activities in non-farm sector. Majority of the respondents’ income has increased as a result of the income generating activities which supplemented their family income.

Respondents are well aware of the concepts of microfinance and Self-Help groups. Microfinance improved the self-confidence and courage of the rural women. It improved the knowledge and awareness on children's education, health, food and nutrition and environment. But improvement in knowledge and awareness on pro poor programs of government and the subsidies of DRDA was less. Microfinance improved the decision making, coordination and financial management skills, but the overall development of managerial skills was poor.

The study reported that rural women became politically empowered and there is increased participation in the political space. Women play an important role in decision making and there is considerable economic empowerment. Nowadays, women have started meeting senior government officials including the District Collector and grass root political representatives for rural infrastructure and civic amenities. So the empowerment leads to development of people which in turn leads to sustainable rural development.

Even though members face constraints and problems during the course of microfinance, they were able to overcome those problems through their self-confidence and courage. The NGOs and voluntary agencies play an important role in sustainable rural development by linking SHGs with banks and they train and guide rural women to set up income generating activities for their sustainable livelihood.
But, there is low level of social empowerment among rural women and poor asset creation in rural areas which are not conducive to Sustainable rural development. It is concluded that microfinance is effective in the following aspects of sustainable rural development.

- Microfinance is effective in the development of weaker sections especially poor and backward women through productive self employment in agriculture, animal husbandry and non farm sector in rural areas by micro enterprises and income generating activities.
- Microfinance is effective in human development through improved education, enhanced skills, improved knowledge and awareness on health, food and nutrition, self-employment, acquisition of self confidence and courage to face problems and challenges, participation in decision making and awareness of environmental protection.
- Microfinance is effective in bringing social assertiveness and social interaction in the spheres of area development, solving civic problems and participation against dealing with rural social problems such as water problems, drinking, pollution etc.
- Microfinance is effective in economic and political empowerment of women in the form of participation in grass root rural democratic institutions for their development, increase in income, enhanced savings, undertaking income generating activities and reduced dependence on money lenders and enhanced ability to deal with the financial crises in the family.
- Microfinance is effective in social empowerment of women and creation of assets in rural areas.
➢ So, it is concluded that, on the whole, microfinance is effective in empowerment, sustainable rural development and development of entrepreneurship.

The policy challenge in many countries is to support effective grass root credit schemes and intermediaries and to ensure that low-income women have assured access to credit from mainstream financial system. National policy makers could help by fixing annual targets for credit to women, designing special mechanisms to disburse such credit and setting up monitoring systems to measure the progress each year.

**Awareness on Microfinance :** On examining the awareness of SHG and microfinance among the respondents, it is concluded that the respondents are well aware of the concepts of microfinance through SHG viz. awareness about constitution of the group, book keeping and accounts, group management and banking procedures. Among the four dimensions of awareness, awareness on book keeping and accounts is very high followed by group management aspects, group constitution and banking procedure aspects. Further, the respondents expect that the training programmes and continuing education programmes may be organized to improve the awareness on microfinance. NGOs should take a proactive role in this process by organising training programmes for the members and exposure visits.

**Evaluation of the role of NGOs :** NGOs play a vital role in solving the problems of Self-help Groups members. NGOs play a key role in microfinance and sustainable rural development. Their role is appreciable in SHG formation, linking SHG with banks and arranging for finance to the
SHGs. The study concludes that the role of NGOs is appreciable one in the rural transformation through their support and guidance to SHGs.

**CONSTRAINS IN SHG LENDING**

Like any other poverty alleviation programs, SHG financing is also suffering from certain constraints in implementation. Therefore, appropriate attention need to be focused, on the following operational issues, confronting these SHGs, both institutional and non-institutional, in the initial stages of implementation itself.

A) **Institutional Issues** :

1. **Institutional Mission** : Commercial banks during last two decades aimed at target oriented approach to attain the statutory stipulations of Reserve bank of India and Govt. of India for alleviation of poverty.\(^48\) Hence, institutional mission is required for banking with the poor i.e., by linking, financing and capacity building of SHGs rather than targeted approach of financing through government sponsored self employment programs.

2. **Organizational Structure** : Due to reforms in banking industry and restructuring of banks, commercial banks are to integrate Microfinance within a larger bank culture and structure to gear towards high volume, small loan size business.

3. **Human Resources** : The financial methodologies to reach poor and retain low-income clients who require small amounts of capital are need to be understood by most mid-level bank managers and not to consider as second class activity. Further,

microfinance and SHG operations are labor intensive and require special training.

4. **Meeting the Costs**: The banks are required to compete in open markets and cover operating-costs, risks and opportunity costs of capital in view of interest rate ceilings for small loans, targeted credit schemes.

5. **Monitoring**: Collaboration among banks, NGOs, government agencies should be effective and efficient, because the role of Government Agencies is waning away and there are inherent failures in the mechanism to direct, monitor and lead the groups towards common goal.

6. **Collateral**: Insistence of collateral securities for loans by banks and insistence of minimum balance for opening of Savings Bank Account are to be resolved in linking of SHGs.

7. **Small and Marginal Farmers**: As a consequence of directed or supervised credit programs and the declining volume of agricultural credit there is a ‘shift’. This ‘shift’ may be explained as a changing scenario from ‘farm credit’ to ‘microfinance’ and from ‘public sector banks’ to promotion of ‘Non Government finance institutions’. And this ‘shift’ should not lead to negligence of the specific financial demand and requirements of small farmers for farm credit.

**B) Non Institutional Issues**:

1. SHGs rating norms are not followed. Groups are to be rated as per the laid down procedures and efforts are required to rectify their weak areas. Acceleration can lead to wrong selection of activities of beneficiaries.
2. Large number of heterogeneous women groups with regard to age and literacy. On the other hand, increasing number of caste based homogenous groups need to be discouraged.

3. Linking of revolving fund assistance – there is no uniformity of revolving fund assistance among groups by the sponsoring agency.

4. The peer pressure that is lacking in majority of the groups is to be ensured by discouraging equal sharing of both savings and credits through internal lending among group members. The credit limits are to be assessed based on credit absorption by the group and proposed activity should be linked to the skills of the group members.

5. Due to illiteracy among group members they have to depend on writing the accounts by the literate person of the village, this is resulting in incomplete updating and factual projection of group activities.

6. Counseling sessions or training on procedures to be followed on savings, internal lending, capacity building and record maintenance is conspicuously lacking in most of the groups. Such activity is to be made mandatory at the linking stage.

RECOMMENDATIONS

Establishment of regulation of microfinance: Microfinance make rural people to come out of the clutches of money lenders but now the rural women are under the hold of the institutionalized money lenders like the NGOs and MFIs. In addition SHG also keeps some margin and finally the member pays higher rate of interest. There is no procedure or system to
regulate the ultimate rate of interest to the members by RBI / NABARD / Government. Hence there is an urgent need for regulation of microfinance. Further, multiple lending is another major issue which RBI has tried to assess in its circular no- RBI/2012-13/161/DNBS (PD) CC. No. 300-03.10.038/2012-13, dated August 03, 2012.

It is suggested that using the Addhar Card Number / NPR (National Population Register) login platform of personal profiles of individual borrowers/members of Self-help Groups should be maintained at national level either by RBI or other national level Regulatory authority. This will avoid multiplicity of finance beyond permissible limit and consequent default. National level real time data of the microfinance industry will thus, be available which can be analysed by policy makers to formulate the policies for development of microfinance industry, rural economy and micro enterprises as well as overall sustainable development of national economy.

**Marketing tie up should be arranged**: Government departments should procure their requirements from SHGs/ Microfinance borrowers. There is poor customer patronage for the products of SHGs; many of the shops in District Supply Marketing Societies remain without customers and shops remain vacant. Absence of proper marketing services is one of the most crucial problems faced by Microfinance borrowers. Generally, there are no regular sales outlets for them and they have to find their own sources for this purpose. Adequate marketing services will improve financial returns of the members. Training programmes on marketing may be organized for the members of SHGs/MSME/ entrepreneurs/ Microfinance
borrowers. Demand creation and widening customer base for their products require immediate action of the development practitioners.

**New suitable insurance policy prepared by various insurance companies on Micro- insurance should be introduced:** Micro-insurance plays an important role to reduce the vulnerabilities and risks of the poor people; it has already been implemented and tested with the microfinance programmes. Micro insurance products have to be introduced in large scale so as to protect the poor against shock and stresses.

**Formation of An autonomous expert Committee on SHGs and microfinance:** An autonomous expert Committee on SHGs and microfinance may be established at National level to provide a systematic supervisory and regulatory mechanism. Such committee should study SHG/ microfinance based programmes, in order to assess the extent to which these programmes address the economic development of microfinance borrowers with special emphasis on women entrepreneurs. It should recommend changes relating to the framework, approach and design of microfinance programmes, as well as changes that might be required in the larger policy and programme environment in empowering them. The Committee should have eminent academics and practitioners as members, who have a substantial background in the issues concerning such microfinance borrowers with special attention on women’s empowerment, poverty and alternate livelihood practices.

**Special training must be provided to Bank Mangers:** The bank managers should be motivated and trained so that they feel comfortable in financing SHGs/MSMEs. Delay in sanction of loans is a major problem in addition to insufficient capital. Simplification of procedures to open a bank
account and reduced clients transaction costs to access credit, etc. could go a long way in encouraging the poor to bank with the formal sector. Therefore, banks should structure a proper training programme for managers to promote the microfinance business by addressing the above said issues.

Training and knowledge dissemination is the need of the hour and microfinance information exchange should be established by NGOs/Other stakeholders with the active support of the government: HRD aspects of SHGs are neglected. Microfinance is not a machine to bring dramatic changes; it should be combined with skill development, trainings, raw material supply and marketing support. Training programmes on group management, income generating activities, team management, conflict management and resolution, leadership skills, marketing and, financial literacy and awareness programmes on environmental protection may be organized by the NGOs. More training and retraining programmes on management of SHGs have to be organized to improve awareness so that there will be democratic participation of membership and rotation of leadership in the groups. Motivational trainings for micro enterprises should be organized to develop entrepreneurial capabilities and to access improved production technologies. Training and knowledge dissemination is the need of the hour and microfinance information exchange should be established by NGOs/other stakeholders with the active support of the government.

A web portal linking the microfinance providers and micro enterprises activities in the entire country will give big boost to the sector
as MFI borrowers in one region can take cue from development of entrepreneurship in other region.

**Absorption of Micro-entrepreneurship by MNC and other Indian companies:** Multinational companies (MNC) and major Indian companies could adopt one Federation (a cumulative group of number of SHGs/microfinance borrowers) to make them active in entrepreneurial activities, thus, help them grow on their own strength. This entrepreneurship development programme can be brought under their CSR (Corporate social responsibility) policy by Government of India.

**Adoption of the SHGs/Micro enterprises and their products by the FMCG:** The SHGs/micro enterprise in rural villages of India gets discouraged when their products were not sold in the market as against big brands. If FMCG companies like HUL, Dabur, P& G can adopt their products or outsource their packaging works or any other related activities; thereby improving quality, reducing the expenditure and helping the SHGs/micro enterprises to empower themselves.

**Microfinance and entrepreneurship** bring new ways for business. Poor, generally are more sensitive for their business, and work hard and they have no other option to survive therefore they always think about their business and try to do something new if they have opportunity. Implementing entrepreneurial ideas in microenterprise bring more profit and productive result as their entrepreneurship is for their survival. Therefore, combination of microfinance and entrepreneurship is a very effective developmental tool that can alleviate poverty and empower people in a better way.
To adequately support small enterprises, MFIs have to understand their unique needs and to tailor financial services and build appropriate infrastructure to meet their financial requirement. Successfully serving small enterprises is a process, not a one-time event- so careful planning is crucial. This will require a commitment from top management to create a client centric approach, hire dedicated and knowledgeable staff, and invest in appropriate technologies.

This entrepreneurship emanating from the bottom of the pyramid can charge and change the entire country and make the Financial Inclusion a phenomenon which entire world would like to emulate.

The Microfinance Institutions and Micro enterprises are like infantry in the Army which lead the charge and coupled with the innovative approaches can take the entrepreneurship to such levels where nobody will be unemployed in the country, the gender bias will be eliminated, the class conflict will vanish and we can see the paradise on earth.

**Scope for further research**

The study paves way for further research in the development of micro enterprises by microfinance, development of rural women entrepreneurs by microfinance, social change, group dynamics, role of NGOs and voluntary organizations in sustainable rural development, marketing of products of SHGs, training and its effectiveness in group management and income generating activities, sustainable alternative livelihood practices brought by microfinance through SHG, microfinance and MDG and role of microfinance in rural development in the context of the emerging threats of globalization.