

## Transition towards Sustainable Transformation: A Case of Microfinance to Micro Enterprises

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Since late 1970's, there have been increasing realization, that one of the obstacles preventing the poor from improving their lives was the lack of access to formal financial sources. Several attempts have been made to develop more sustainable and reachable financial systems without much success. In 1980s, micro-finance or micro credit has been advocated as the new panacea for reduction of poverty. Self Help Groups (SHGs) have been promoted, both by the governments, as well as Non-Governmental Organisations (NGOs) and other donor agencies for improved access to credit, particularly to small loans and thereby to enable the poor to undertake income generating activities to improve their livelihood. Increasingly, microfinance institutions (MFIs) emerged to provide diverse products, such as housing loans (primarily for improvements, repair and maintenance), insurance (both health and life insurance), and pension besides micro credit. Today, the micro finance and SHG movement have assumed the center stage of the development discourse in both developed and developing world. There has been an incredible support and encouragement at the global level through key agencies led by World Bank.

The governments of the developing countries have also accepted the idea and actively incorporated it into their policies and programs. As part of this mission, these governments including that of India, have actively encouraged and rigorously co-opted the organized financial institutions and third sector initiatives in their respective societies. This is not to deny the existence of such similar initiatives in the third sector prior to these global and national stimuli. India has witnessed a tremendous increase in the number of SHGs formed, thereby ensuring reach of credit to the otherwise credit deprived masses. But, unfortunately, many of these micro finance clients have not graduated into micro

enterprise undertakers, resulting in the initiation of the members into economic activities that could lift them from the poverty trap through sustained income generation. There are various studies reflecting on different issues of micro finance and SHG movement in India, but none have looked into the issues involved empirically in transition of SHGs and SHG members from microfinance users to microenterprise investors. Karnataka has been in the forefront of rural banking, and today occupies the third position in promoting SHGs, among all the states in India, after Andhra Pradesh and Tamil Nadu. In Karnataka, the two coastal districts namely Udupi and Dakshina Kannada and the districts of Western Ghats especially Shimoga witnessed a remarkable growth in SHG movement. There has not been a comprehensive, in depth, empirical study on the role of SHGs in economic empowerment of target groups in these districts. The need for undertaking such studies on a comparative basis is, therefore, obvious. The present study making a comparative study of Dakshina Kannada and Shimoga is an effort to meet this need.

### Objectives of the Study:

The study primarily aims at the assessment of the socio-economic conditions of the Self Help Group members in Dakshina Kannada and Shimoga districts and identifying the problems confronted by them in improving socio economic empowerment of their members. The following are some of the specific objectives:

1. To study the motives behind formation of the SHGs;
2. To study the process of evolution of SHGs as a facilitator for setting up micro enterprises for employment generation and improving family income;
3. To evaluate the sustainability of the self-employment ventures and the SHGs; and

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4. To suggest appropriate policies and strategies for improving the transition of SHGs as micro finance clients to micro enterprises.

#### **Methodology:**

The study is an empirical one using both secondary and primary data. The analysis of secondary data involves a comprehensive literature review of published and semi published sources, including, journals, and magazines and reports of various committees and data published by NABARD and other agencies concerned in regard to microfinance at macro level. The micro level empirical part of the research study is based on a field survey confined to the two districts mentioned. A sample of 200 SHGs with a minimum of three years of existence is selected on random basis, 100 in Dakshina Kannada and another 100 in Shimoga. By covering at the rate of five members in each of the SHGs selected, totally 1000 members were brought within the fold of the field survey. Since SHGs in the initial stage would be involved only in mobilization of saving and availing credit for mainly consumption purpose, a minimum of three years' experience criteria was found necessary for selection of SHGs.

The primary data is collected through a structured questionnaire from the Self Help Groups promoted by the NGOs and the government in selected districts. With regards to the groups of NGOs, Sri Kshetra Dharmasthala Rural Development Project (SKDRDP) in Dakshina Kannada and Shimoga Multipurpose Social Service Society (SMSSS) in Shimoga district were selected for the purpose of the study. The members of the selected SHGs were interviewed mostly at their work places. The NGOs associated with the selected SHGs were approached during the field survey to assess their involvement. The groups promoted by the State (popularly known as 'Stree Shakti') and the SHGs promoted by the NGOs in the concerned districts were studied in detail.

A cross-section analysis of the field data district-wise and promoter-wise was carried out to draw inferences relating to the objectives set in the study with particular emphasis on employment generation, economic - empowerment and the role played by various agencies in supporting the efforts of SHGs. An analysis of the

employment opportunities created both through an expansion of the existing occupations and the new self-employment ventures adopted is made. An attempt is also made to examine as to whether SHGs have received credit support and subsidies under any other poverty alleviation programs in vogue. In all the relevant contexts, the experiences in Dakshina Kannada and Shimoga districts have been compared and contrasted in the light of the objectives of the study. To arrive at the realities confronting the SHG movement and microenterprises, SWOT analysis is made.

#### **Review of Literature:**

The provision of financial services to rural poor, who constituted majority of the rural community, was the major area of policy concern world-wide including India in recent years. Historically, informal agencies like money lenders, traders, landlords, and solidarity groups of like-minded people played as financial intermediaries in the rural areas. With their local knowledge and close customer relationships, they were able to meet all types of credit needs of rural people in time without collateral security. However, in the context of economic development and growing need for financial services, the informal agencies with their limited resources and exploitative terms were considered not suitable to meet credit needs of rural people. Until 1980s, attention was mostly focused on building up an alternative formal credit delivery system to replace the informal system.

The search for alternatives led to experimenting with a variety of formal financial institutions like cooperatives, specialized agricultural banks, rural banks, commercial banks, government sponsored project authorities and targeted cheaper credit projects. The failure of all these formal financial institutions to replace informal agencies and to provide financial services to the rural poor on cost effective basis prompted the international agencies like the World Bank, FAO, Aid agencies, and NGOs to look into the appropriateness of practices and techniques adopted by the informal finance and the scope for linking them with the formal financial system. It was found that the poor tended to come together in a variety of informal forms for pooling their savings and dispensing small and unsecured loans at varying costs to group members on the basis of need.

Globalization and economic liberalization have opened up opportunities for development and growth resulting in the modifications of livelihood strategies. However, these changes are making the marginalized and poor sections of society more vulnerable in the absence of adequate safety net. As stated earlier, the poor are generally excluded from the financial services sector of the economy. Poverty alleviation has become the object of unprecedented attention nowadays both at national and international levels. All nations committed to attain the Millennium Development Goals, which include inter alia reduction of poverty level by half by 2015. Successive governments have grappled with poverty reduction through a plethora of schemes, spending hundreds and thousands of crore of rupees, with limited success. In the context of rural people, their economic condition becomes more vulnerable due to unequal distribution of resources. Well designed programs can improve incomes of the poor and lift them out of poverty [1]. Keeping in view the widespread rural poverty, there is a need, not only to ameliorate the economic conditions of marginalized and disadvantaged social groups, but also to transform the social structures [2].

Many believe that financial sector development can directly contribute to poverty reduction by providing or broadening the poor's access to financial services [3]. Microfinance has proven to be an effective and powerful tool for poverty alleviation. A new world of micro-finance has, thus, emerged not only as a profitable niche for innovative banking services to the poor but also as a new development initiative for inclusive growth. Recognizing the critical importance of microfinance, a Micro-credit Summit was held in Washington in 1997 attended by 137 countries. A campaign was launched as a result for reaching 100 million of the world's poorest families especially women by the year 2005, with micro credit for self-employment and business. In pursuance of this declaration, a number of initiatives have been taken up by the governments, banks and NGOs in the third world countries to enhance the flow of credit and other financial services to the poor.

Microfinance is defined as the provision of financial services to the poor who do not have access to capital

and financial services [4-5]. Broadly, it describes the provision of banking services by poverty-focused financial institutions (microfinance institutions) to poor parts of the population that are not being served by mainstream financial service providers [6]. UN considers microfinance as one of the most important foundations to economic growth in developing countries (UN International Year of Microcredit, 2005).

Empirical evidence shows the positive impact of microfinance on poverty alleviation as it relates to the first six out of seven Millennium Development Goals. A substantial track record of accomplishment and a significant body of empirical studies worldwide together underline the significance of micro finance as an effective antipoverty and development strategy [7-9]. A considerable body of literature has accumulated over the past years documenting and monitoring the development of the micro finance sector world-wide [10-14]. Majority of the empirical studies reveal that microfinance positively contributes to the poverty reduction and reaches out core poor. It is also pointed out that by providing microcredit to the 'poorest of the poor', the gap in the formal rural credit sector can be filled. Hence, the emergence of micro finance can be accepted as a good sign of economic development [14]. Past research has also identified several major outcomes of self-help groups. These include emotional support, acceptance, empathy, affirmation, spirit of hope and sharing of feelings, provision of factual information and sharing of experiential knowledge, development of a sense of community and individual and collective empowerment [15-21]. They were also found providing scope for collective management of funds and assist in developing entrepreneurial skills of individual members [22].

An informal arrangement for credit supply to the poor through SHGs is fast emerging as a promising tool for promoting income-generating enterprises [23]. Self Help Groups have been instrumental in initiating micro entrepreneurial activities among those poor people who have been neglected so far and kept away from the process of social as well as economic development. Studies have revealed that access to financial services through SHGs and the development of micro

enterprises are the two key pillars for inclusive and sustainable economic development [24]. Recognizing the critical importance of SHGs, the NABARD has promoted the SHG-Bank linkage program in India to integrate informal savings and credit groups with mainstream banking by providing them with credit to enhance their fund base [25]. The SHG-Bank linkage is, thus, a means to the ultimate goal of providing to SHGs of the rural poor self-employment oriented business opportunities to increase their income and improve their standards of living [26]. In short, Self-help group formation of the poor is a revolutionary step to attack on poverty and unemployment and the most significant contribution of the movement is capital formation by the groups of poorest of the poor people for their welfare [27].

Microenterprises have been recognized for their significant role in poverty reduction by creating self-employment opportunities, supplementing agricultural income, linking agricultural households to local markets through the sale and exchange of products and providing a source of employment for household members where wage employment is scarce [23]. These enterprises help in solving poverty and inequality, staggering unemployment, regional disparities and other socioeconomic problems encountered by the society. There is, however, little evidence to show that SHGs have graduated to undertake micro enterprises and only the clients with existing micro enterprises or employment (often defined as "the economically active") are the only ones benefited from microfinance [28][8].

In promotion of microenterprises, SHG members were found faced with a lot of problems in marketing of their produce besides low level of appropriate skills. There is a need to involve SHGs in promotion of microenterprises to create livelihood and employment opportunities for their members. This also require capacity building by imparting relevant financial skills and developing their risk-taking abilities. In this direction, NABARD has initiated a three-year "pilot project" in nine

districts across nine states through professional marketing agencies and the project has shown encouraging results. There is a need to rapidly upscale such efforts [29].

The review of the most of the research work done in this area mainly focused on the conceptual and operational framework of micro finance and SHGs with particular attention to group formation, micro savings, micro credit and gender participation. Micro finance and SHG formation are only means to an end. The end is socio-economic empowerment of the poor and women through saving and investment in income generating micro enterprises. Unfortunately, no major study has been conducted on transition of these clients beyond microfinance and related issues. Hence, an attempt is made in this study in this regard.

#### **Findings of the Study:**

The study has arrived at the following findings:

The composition of the members is important to deal with. All SHGs studied were women promoted. While in Dakshina Kannada district, majority belonged to OBC and SC/ST community, in Shimoga district, almost all caste and religious group were represented in the SHGs studied. However, all were found belonging to low income group. The majority of the members of SHGs studied in Dakshina Kannada district were beedi workers, house wives, and non-farm laborers, while in Shimoga, the majority of SHG members were housewives followed by non-farm labourers and agricultural labourers. The majority of the SHG members in both the districts belonged to the age group between 20 to 40 years and was literate.

Though there is no similarity in the periodicity of meetings in SHGs sponsored by different NGOs and government and also in different districts, most of the SHGs was found regularly meeting every week or fortnight. All members of SHGs participated in the decision making process as the Management Committee members.

<sup>1</sup> Millennium Goals: 1.Reduce the proportion of people living in extreme poverty by half between 1990 and 2015 (defined as people living on less than \$1/day). 2.Enroll all children in primary school by 2015. 3.Make progress towards gender equality and empowering women by eliminating gender disparities in primary and secondary education by 2005. 4.Reduce infant and child mortality rates by two-thirds between 1990 and 2015. 5.Reduce maternal mortality ratios by three-quarters between 1990 and 2015. 6.Provide access for all that needs reproductive health services by 2015. 7.Implement national strategies for sustainable development by 2005 so as to reverse the loss of environmental resources by 2015.

One of the laudable objectives of the promotion of SHGs is the social empowerment of women, enabling the poor women to become confident, independent and self-reliant in social dealings and participation. Out of 1000 members studied, 140 held the position of Presidents of SHGs, 126 as Secretaries and 13 as Treasurers. These positions were also rotated to ensure equal opportunities to every member of the SHGs. The participation in decision making in various positions contributed significantly for developing leadership quality and social empowerment. It is gratifying to note that the majority of the SHG members have reported improvement in their involvement in household decision making process. They expressed in clear terms the changing attitude of men towards them, consequent to their becoming members of SHGs. Over a period of time, association of them with the SHGs has brought them a sense of recognition and an identity of their own within the family and also outside.

So far as training of SHG members is concerned, the picture is not that encouraging. In the case of SKDRDP sponsored SHGs in Dakshina Kannada district, almost all members were found trained, while in the case of the SMSSS promoted SHGs in Shimoga district and the government sponsored Stree-shakthi SHG, only a few members received such training in both the districts.

All SHG members under study have emphasized that mutual cooperation, understanding and unity as the strength of their SHGs. Regular meetings of the members of the group enabled participatory approach, long lasting group relationship and comradeship. The social cohesion in the group and election of management committee by rotation gave a sense of responsibility to each member of the group. As regards improvement in social status, there was no general consensus. Contrary to expectation, only small proportions of the members have indicated improvement in social contact and increase in knowledge. Similarly, while the majority of the members studied in Dakshina Kannada have reported improvement in their social standing as a result of getting emancipated from money lender's debt, this was not the case in Shimoga district.

In all SHGs studied, saving by members on monthly

basis was common in both Dakshina Kannada and Shimoga. The monthly amount collected for savings varied between the groups promoted by different promoters (both NGOs and government) in different districts. For the first time, unemployed poor women came together, opened in the bank saving accounts of their own and inculcated regular saving habits. The accumulated savings amount provided them a feeling of security, confidence and independence. It also enabled them to build funds of their own to meet any emergencies and to borrow from formal financial institutions to improve their standard of living.

All SHGs included in this study have lending program for their members as the main feature. There was, however, wide inter-district variation in the level of lending program. The level of lending program was also found varying depending on the age of the SHG and accumulated savings. In the case of NGOs, they borrowed funds from the commercial banks and on-lend to the members directly. SHGs have only acted as facilitators to screen loan requests, provide group guarantee and arrange for recovery. In the case of Stree-shakthi SHGs sponsored by the government, the SHGs have borrowed from District Cooperative Banks on behalf of their members. As regards terms of lending, it was found no significant variation. Almost all the 200 SHGs have reported group guarantee by members as the main security for lending.

It was found that 100 percent recovery was reported by all SHGs studied in both districts irrespective of who sponsored them mainly due to punitive action taken by the promoters. The SKDRDP in Dakshina Kannada district was found very assertive in terms of recovery of loan and became a pace setter for others. If a member failed to make repayment in stipulated time, the other members were asked to bring pressure on her. If it failed, action was taken to recover loan from other members. This also has an impact on the grading of the groups for fresh lending.

Almost all SHGs have maintained their books of accounts and records by themselves without any external help. These records are usually maintained either by the secretary or the treasurer and monitored by all members. It was only in the case of few

government promoted Stree-shakthi SHGs, Anganwadi workers were outsourced. The Anganwadi workers were involved in group formation of Stree-shakthi SHGs and therefore closely involved in the working of these groups.

In both Dakshina Kannada and Shimoga, the age in terms of the number of years of operation of SHGs since formed was critical not only for capacity building for sustainable operation of SHGs but also for transition towards investing in income generating micro-enterprises. The transition from microfinance for consumption to microfinance for enterprise development was taking place mainly in the SHG groups of 6 years and above age group. In the initial stage, the emergent family needs took priority in microfinance utilization. It was only in the case of subsequent stages, there was a visible shift in borrowings in favour of income generating productive investment though there existed significant differences in the pace of graduation in different districts.

A comparative analysis of loan utilization by different age group of SHGs promoted by different promoters and in different districts has clearly shown the changing pattern of loan utilization from consumption purposes to investment purposes. In the case of SKDRDP promoted SHGs, in the first generation SHGs of age group upto 4 years, more borrowings took place for family consumption needs, house repairs, medical expenses, education and debt repayment. Even in the case of other SHGs aged below three to four years, the activities were centered around saving mobilization, provision of micro-credit for consumption needs and recovery performance.

The role of promoting agencies was found another critical contributing factor in this transformation of microfinance to micro-enterprise. Through training relating to the functional skills development to undertake micro-enterprises, technical and managerial back-up and marketing assistance, the promoting NGOs/government agencies were found the main players in moving SHGs towards micro-enterprise development. The SKDRDP was found forefront in this transformation. The majority of their SHG members were found either already moved towards micro-enterprise development

or in the transition. They have organized skill-based training programs, provided technical back up services and through 'Siri' a federal marketing set up provided marketing services. Contrary to this, the SMSSS in Shimoga district and the government have not taken any such initiatives and as a result, most of their SHG members have not yet moved towards undertaking micro-enterprises. This trend was also found in regard to group enterprise undertaking. Besides undertaking microenterprises individually, SHGs are also as group better position to undertake income generating activities for the benefit of its members. Out of 34 SHGs undertaken microenterprises on group basis, 27 were found among SHGs promoted by SKDRDP.

The successful move of SHGs towards micro enterprise development ultimately depends on financial viability of micro enterprises undertaken and their sustainability. Most of the micro enterprises such as dairy, tailoring etc. have been undertaken by women SHG members as supplementary income generating activities. Due to differences in the type of enterprises undertaken, size of loan amount invested, scale of operation, starting period etc., wide variations were found in the net income earned and hence it is difficult to arrive at any general conclusion on financial viability of enterprises. On an average, a SHG member was found earning a net income ranging from Rs.2500 to Rs.4500 per month and in some exceptional cases, the average earning even exceeded Rs.10000 per month. In most of the cases, good scope was found for expansion and potential for increasing significantly their earnings. The field data has also shown a significant increase in most of the household goods after the SHGs moved towards micro enterprises in both the districts.

The problems confronted by the SHGs in moving towards microenterprise development are both internal and external. Internal problems were mainly centering around capacity building of SHG members to become entrepreneurs in micro-enterprises. SHG members are mainly from weaker sections of the society. The major complaint of the SHG members was that they got training on skills which were not relevant for undertaking enterprises they wanted. Being housewives, they have also limitations to fully engage

in any enterprises on full time basis far away from their residence and the scope for women-friendly and home-based enterprises were limited.

The external factors mainly centered on technical, managerial and marketing back-up services. The major problem identified by the SHGs is lack of marketing arrangements for their products. The NGOs and even the government consider SHGs only as financial intermediaries for microfinance. They are not interested in developing SHGs as micro entrepreneurs. With the exception of SKDRDP, none are involved in providing technical and managerial back-up services and marketing arrangement of the products produced by SHGs. Some of the activities of the NGOs also pose threat for SHGs move towards micro-enterprise development. They are interested in more turn-over of funds by short term credit, charging high monthly interest rates and repayable in monthly installments within a year. They are not interested in blocking their funds on term loans. When rate of return from micro-enterprises is low, charging of high rates of interest, zero tolerance of repayment delays and coercive methods of recovery of loans also pose threat to move towards micro-enterprise development.

The difficulty in marketing of the products is another major problem coming in the way of transition of SHG members to micro-enterprise development. Being a tiny sector, it cannot compete with organized sector and also cannot undertake sophisticated marketing arrangements. With rural base, the local demand is also limited. They require some marketing arrangement to tap urban markets. The study has also revealed that SHGs, who have undertaken micro-enterprises, were finding difficulty in marketing their produce. Unless market-link to urban markets on bulk basis is provided by private sector, the government or NGOs, the marketing of products produced by the microenterprises will be a major threat.

In the case of government sponsored Stree-shakthi SHGs, the government's role ends as soon as the SHGs are formed. There is no agency to provide them technical, managerial and marketing back-up. Even, where they undertake micro-enterprises, their main interest was found in obtaining government subsidy.

Moreover, a major problem in their move towards micro enterprise development would be the political interference; political parties consider them as another vote bank and make all efforts to control them. In such a situation it is not possible to ensure viable functioning of microenterprises. Similarly, the main problems faced by SHGs in venturing group enterprises were found to be high overhead for land and building space, lack of cohesiveness in the group to jointly share the equity, workload, liability and difficulties in marketing of the produce and fear of loss.

Conclusion:

The micro finance interventions through SHGs are now well recognized as a cost effective mechanism for delivery of financial services for the poor particularly women all over the world. Though, initially, the microfinance is expected to meet the emergency consumption needs of the poor and weaker section of the community, the real challenge is how to make it an instrument to enable the poor and needy to graduate towards income generating micro-enterprise investors on viable and sustainable basis. Unless the evolution towards socio-economic empowerment of the poor and weaker section of the society takes place, the microfinance would not serve its purpose and instead, it would become a hangman's rope. The sustainability of microfinance entirely depends on this process. Hence, the main thrust of the microfinance, in medium and long term perspective, should be to empower the SHG members to enable them to undertake income generating micro enterprises on viable and sustainable basis.

It is in this context, the study aimed at examining empirically the dynamics and evolution of SHGs as micro finance clients to micro enterprise investors and problems faced by them in this transition as well as in undertaking micro-enterprises on viable and sustainable basis. To conclude, an attempt is made to take stock of the issues brought out in the study and recapitulate the main findings with a view to bring out implications to suggest some critical policies and strategies required for graduation of SHGs and their members towards viable and sustainable micro-enterprises through microfinance.

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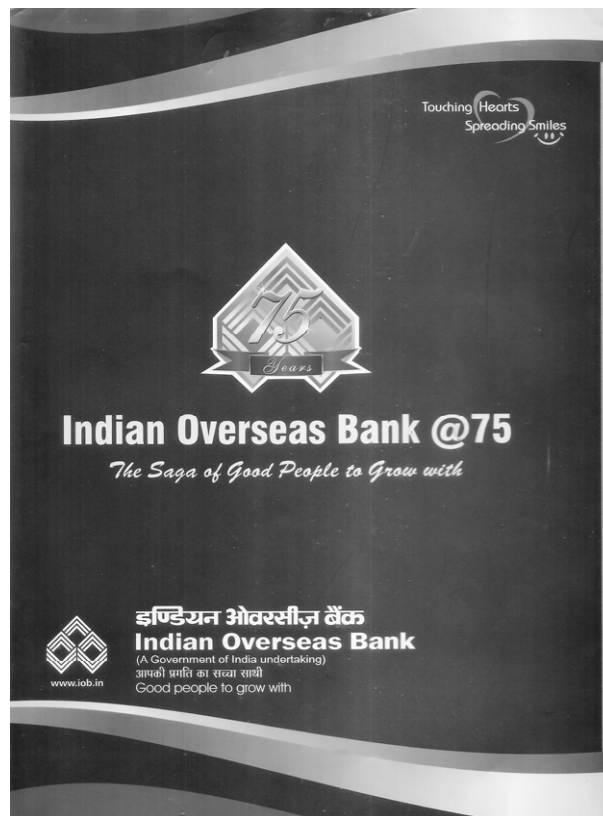
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