Chapter II

Research Context

ICT, Development and Micro-Finance Initiatives in India

Introduction

This chapter attempts to link the seemingly concepts of ICT, Development and micro-finance. It sets the context within which the present study is carried out.

Backdrop: The Big Debate

Developing Countries are struggling with varying degree of success to attain development goals. Poverty alleviation, in urban and rural areas is recognized as being critical because there is evidence that core problems of underdevelopment all find their origins in the stagnation of economic life (Tadaro, 1985). As ICTs spread in developing countries, the question about its contribution to the development process has become an issue of much concern. A great deal has been written about ICTs being a critical resource in the promotion of socio-economic development (Munasingh, 1989; Mansell et al., 1996; Bhatnagar and Schwarze, 2000 etc.). Gupta (1981) echoes this optimism as early as 1981, when he writes that: “It is now an accepted fact that there are various areas in a developing country where the pace of development can be speeded up significantly by the use of computers”.

Another author expresses a similar hope (Benmokhtar, 1984): “We are many in developing countries who found our hope in the computer revolution. We see in it a way to realize our dreams to overcome poverty and mediocrity and to reach a society of equity and welfare.” United Nations Center for Regional Development has pursued this line of
argument by examining the potential of microcomputer-based applications for third world regional development program. (UNCRD, 1988).

More recently World Development Report Knowledge for Development (1998/99) has stressed the importance of ICTs for building a knowledge-based society. There is a high degree of confidence in ICTs and computers in developing countries and they are seen as a “box full of chocolates”—of promises and hopes. Rahim and Peennings (1987) provide number of examples of the ‘rhetoric of computerization’. The same issues are also echoed on more recent developments related to the Internet (Bedi, Singh and Srivastava, 2001).

This enthusiastic attitude towards ICTs for development process bears strong resemblance to the dominant paradigm of 1950s and 1960s. Dominant paradigm saw backwardness as a first development stage which should be followed by a process that realized the forces of modernization. Different stages of development were just different points on a continuum, ranging from the least developed to the most developed countries (Servaes, 1996).

Modernization model was however rejected due to its inadequacy and inability to explain phenomena in the development process. 1970s and 1980s saw the emergence of alternative paradigms such as dependency theory and participatory approaches. Despite these developments, the rhetoric of dominant paradigm and modernization model seem to
dominate the ICT strategies in many developing countries and has remained the driving force behind building an ‘information society’.

There are, however, considerable skepticism regarding the impact of ICTs for developing countries. A closer look at the present computer usage in many developing countries reveals considerable uncertainty as to real achievements and benefits. Lind (1986) questions whether the promise of benefits from information technology is nothing but a myth and argues that unrealistic expectations of information technology have led to the perceived failure of systems. While there has been an intensive debate on the potentials of ICT for developing countries, we are yet to understand fully what hampers its utilization.

Different macro-level factors that have an impact on ICT application and usage in the context of developing countries have been observed. Eres (1981) has identified factors, which could affect risk, and uncertainty and which inhibit the transfer of information technology to developing countries. Eres’s list of factors are relevant particularly in the context of rural regions of most developing countries (see Annexure 1).

But is Eres attempting to deal with the problems created partly, if not totally, by technology in general, and ICTs in particular? Would large scale adoption of ICTs exasperate these factors among potential users? These questions lead to the issue of

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1 Questions have been raised about the benefits of computerization even in developed countries. Debate surrounding ‘productivity paradox’ is one such issue. See Landauer (1995)

2 But Bell (1996) criticizes the list “for being simplistic, for stereotyping these countries and expressing conditions as being homogeneous”.
knowledge gap thesis which argues that far from alleviating disparities, the overall impact of ICTs is likely to be widening the gap between information rich and information poor. New ICTs may in fact have an overall effect of increasing the information gap.*

(Norris, 2001: Loader, Eds. 1998)

Many scholars have examined the knowledge, information and infrastructure gaps between developing and industrialized countries as well as within developing countries (Norris, 2001) They have pointed to the emergence of the ‘new underclass of the information poor’ and ‘zones of silence’-regions that are geographically, socially, economically outside the digital space.

UNCSTD Working Group Report (1998) notes that "ICTs can make a distinctive contribution to sustainable development but that this opportunity will be accompanied by major risks. For example, "least developed countries face enormous risks of exclusion because they often lack the economic and social capabilities needed to take advantage of innovations in ICTs." This difference in “knowledge-gap” is attributed to number of factors, specifically social-structure of the society in which the information flows. The likely effect would be to increase the power of those in control, increase centralization, and provide more wealth to the already rich. ICT based systems will differentially benefit the resource rich (large corporations and government) and resource poor (small business and non-profit organizations).
Research tradition which now come to be labeled as "knowledge-gap hypothesis" raises concerns about knowledge inequalities in democratic society which may lead to power differentials and reflect on the capacity of the systems to serve the needs of all their members equitably. (Viswanathan and Finnegan, 1996)

While much has been written about the potential social and economic benefits of digital technologies, it is also true that ICTs are making no differences to the lives of people in many developing countries. Many developing countries are still struggling to meet the basic human needs. UNDP's annual reports on Human Development Index, (1990 onwards), persistently remind us of these inequalities.

The role of ICT has fueled a debate among optimists envisaging the positive role of ICT for transforming poverty in developing countries and skeptics who believe that new technologies alone will make little difference one way or another, and pessimists who emphasize that digital technologies will further exacerbate the existing divide (Norris, 2001). Socio-economic inequality is startlingly manifested in poverty and related forms of social exclusion and hence the transformative potential of ICTs, needs careful consideration.

**Poverty and Development**

If the link between ICT and development is unclear, ICTs relation to poverty is still muddled. Hundreds of millions of people in developing countries continue to live in
absolute poverty. They are deprived of basic necessities of life such as adequate food, clothing, shelter and minimal health care. Number of factors have been identified as causes for incidences of poverty: skewed distribution of assets, unequal distribution of land, large sized family, lack of employment opportunities, low production, unequal benefits of growth and low rate of growth, illiteracy, poor rural infrastructure and lack of access to credit. However the question of nature of poverty and ways to measure them has remained point of controversy. Scholars within what has come to be called as “post-development-school” argue that poverty has actually increased as a result of earlier development initiatives, (Sachs, 1992). Others argue that poverty levels has remained the same (neither decreased or increased) for the last several decades, (Marris, 1999).

Definition of poverty and poverty line has been a difficult task. World Bank defines poverty simply as “the inability to attain a minimum standard of living”. Others have evolved a ‘domestically-determined’ poverty line and have tried to target people below national poverty line. Poverty is seen as a complicated condition but this has not always been the case, (Narayan, 2000). Earlier (50s and 60s) poverty was treated as a lack of minimum nutritional intake needed to sustain life: calorie counts became the key measure and feeding programs the responses. The poor were then identified as those who fell below the minimum. At the heart of the debate about defining poverty stand the question of whether poverty is largely about material needs or whether it is about much broader set of needs that permit well-being (or at least a reduction in ill being). The former position concentrates on the government measurement of consumption, usually using income as surrogate. Although this approach has been heavily criticized for its
"reductionism" and 'bias to the measurable (Chambers,1995), it has considerable strengths in terms of permitting quantitative comparisons and analysis of changes in the access of different people to their most pressing material needs (Townsend,1993).

Following Rogaly, Fisher and Mayo, (1999) poverty can be defined in relative terms as "the experience of living in a household with a level of income or wealth which is below that necessary to purchase the range of goods and services considered by the standards of the majority in a particular group to be sufficient for living."

Poverty has always been recognized as the central problem in development. South Asia, for example, accounts for half the world's poor (560 million according to Human Development Report, 2001). Estimation of incidences of poverty in India puts the figure anywhere between 29% to 43% (depending on the definition and methodology used to operationalize the poverty).

Research has linked poverty to other kinds of social exclusions (Wignaraja, 1990). Social exclusion can be defined as the "process which brings about lack of citizenship, whether economic, political or social." (Rogaly, Fisher and Mayo, 1999). In particular, research and much of development initiatives have been focusing on women's social exclusion and its implications for any poverty alleviation programs (Seth, 2001).
Gender and Poverty

In the 1970s, the birth of Women in Development (WID) challenged the ‘trickledown’ theories of development, arguing that modernization was impacting differently on women and men (Melkote and Leslie, 2002). Women have fared worse than men in all regions, in all strata, in every socio-economic and development indices (Sen and Dreze, 1995). Gender differences can be seen in resource control, education, employment, health, decision-making, etc (Seth, 2001). Narasimhan (1999), notes that there is a rise in the population of women among the poor strata. 70 per cent of the world’s poor population of 1.3 billion are constituted by women. Women produce 50 percent of the food worldwide but they receive only 10 per cent of the incomes. “Women’s access to and ownership of resources is much less than men and the control of its use and dispensation vests more on male member of the family (ibid.)”. Thus many scholars have argued that there is a growing ‘feminization of poverty’. And any development intervention that fails to take into account gender dimensions of poverty is bound to fail.

Thus poverty and gender inequality are seen as central problems in development.

Poverty and ICT

But where does ICT fits into this scheme of things? The importance of knowledge for development is clearly captured in the foreword of the World Development Report (1998/99) “Because knowledge matters, understanding how people and societies acquire
and use knowledge—and why sometimes they fail to do so—is essential to improving people's lives. (World Development Report, 1998/99). The report adds that “Poor countries—and poor people—differ from rich ones not only because they have less capital but because they have less knowledge.” (ibid)

While acknowledging that knowledge is costly to create, World Development Report (1998/99) argues that people are poor because they lack knowledge. However, Wilson and Heeks (2000), point out, that reverse is also true, people lack knowledge because they are poor. Poverty and social exclusion means poor people are also deprived of their ability to access, assess and apply knowledge, particularly those available through new ICTs.

While it is clear that knowledge and information are critical resources for development, there are many constraints placed on applying ICTs for poverty alleviation. In attempting to examine these questions scholars have paid considerable attention to the constraints that exist for poor to harness the potential benefits of ICTs. Based on the works of the Richard Heeks and others, Melkote and Steeves (2002) identify following constraints

- Constraints in Accessing Technology
- Constraints in Accessing Information
- Constraints in Evaluating Information
- Constraints in Applying/Using Information
Given these constraints, the poor are unlikely to "reap the benefits" of ICTs in the short run. Governments and many developmental institutions are now trying to establish national level as well as local state level strategy to promote ICTs to enable people to participate in 'knowledge-based development'.

Missing in these debates are some critical questions: how and in what ways ICTs can help poor people and those who are socially excluded. How can these strategies be made sensitive to the special needs of the marginlized? What are the areas that are likely to create opportunities for the use of ICTs in sectors where they have the maximum potentials to benefit the poor? What are these opportunities and what barriers exist? How can we develop capabilities to adapt, maintain, and reconfigure existing 'ICT solution' to specific requirements of developing countries? What factors mediate success or failure of such an endeavor?

These questions serve as an impetus for the development of the background theory, against which the present study is undertaken.

**Background Theory**

The key assumption made in this study is based on development support communication model (Ashcroft, 1996) and a contingency view of technology (Mesthene 1970). The approach is adapted to the context of new ICTs.
Emmanuel Mesthene argues that technologies are simply tools that create opportunities to achieve new goals or to do things in new ways, which means that people and groups of people generally must organize themselves differently from before in order to take advantage of the opportunities offered by new tools. They also present us with 'negative effects often by virtue of the other' which needs to be contained. New technological innovations place strain on our values and beliefs and these strains are reflected in economic, political and ideological conflict. Technological innovations leads to a need for social and political innovation if its benefits are to be fully realized and its negative effects kept to a minimum (Mesthene 1970). The balance that is possible, ultimately, depends on number of contingency factors.

Erskine Childers proposed a receiver-oriented approach to communication as a support to the development initiatives specialists in the various technical fields of development. 'Ashcroft (1994) summarizes Development Support Communication (DSC) approach thus:

"The essence of this approach is designing messages and strategies of communication specially tailored to the needs of specific development projects and geared to the socio-cultural milieu of specifically intended beneficiaries."

Linking the contingency view of technology and DSC perspective leads to the following propositions:
ICTs are tools that open new opportunities and new threats (often by virtue of each other).

New institutional mechanisms are required to harness the potential of new ICTs and to minimize its negative impact.

These tools need to be designed/tailored to the specific development initiatives that are currently operational.

The approach adopted here recognizes that ICTs both reflect and influence the society that produces it. Although an important influence it is not the only one. One needs to fit ICTs to existing many different developmental initiatives especially those, which have a clear aim of alleviating poverty and social exclusion. As UNCTAD Report (1998) points out: "It is more productive to view the use of ICTs as an enabler of development and a source of skills and capabilities that can make a contribution in many different development contexts, than as a isolated sector for investment."(p256)

Eschewing any direct impact of ICT, this model suggests that information and communication are resources that need to be mobilized to support specific development programs. None of the potential development benefits of the ICTs will be fully realized by the technology alone. Its benefits can be realized only when people, including development planners, development beneficiaries, private sectors and other stakeholders work together to develop a deeper understanding of the development objectives and find ways to align ICT- strategy towards this. "It is important to focus on the complementary aspects of ICT use and to recognize that decisions about how ICTs are developed and
incorporated in social and economic activities are crucial to their effectiveness" (UNCTAD p256). Authors like Arnold Pacey (1983) stressed the need to examine the web of human activities surrounding the machine, which include its practical uses, its role as status symbols, the organization accompanying it, the skills of its owners etc. Technology not only comprises of machines, techniques and crisply precise knowledge, but also involves characteristic patterns of organization and imprecise values.

The role of ICT in poverty alleviation, then, involves an examination of how different social factors are designing and incorporating ICT strategy within their overall developmental activities. ICTs and digital information must be combined with local human resources and organizational context if they are to be helpful in addressing development problems. The adoption and adaptation of ICTs occur mainly through specific institutions. The primary responsibility of information-communication strategists is to ensure information-resources and the enabling technologies are designed and utilized in such a way as to support the goals and objectives set by particular development institutions.

The approach adopted here involves developing an ICT strategy in response to a development strategy, using corresponding institutional framework and ICT infrastructure. Strategy refers to examining problems, opportunities, constraints, resources and abilities and taking decisions about general priorities and courses of action (Dale, 1998). The approach does not identify ICT strategy in isolation from the social, economic and organizational context. Such an approach would amount to technological
determinism. The model argues that ICT has only a limited enabling role in the alleviation of poverty within specific institutions that are engaged in these activities. The model seeks to identify current grass-root level development initiatives and examine how ICT can possibly be aligned to it. Thus the focus needs to be on institutional intermediaries that act as “transmission” belts for development. The idea is represented in the Figure 1 presented below.
Intermediaries Institutions and Capacity Building

It is unlikely that the poor, particularly those below poverty line (mostly women) will be able to directly use ICT. Intermediary organizations such as Non Government Organizations (NGOs) are likely to act as a critical link. Heeks (1999) points out that the ICTs currently have far greater enabling value in building capacity within the intermediary institutions than directly affecting the poor. Intermediaries are needed to bridge both the "overt and social resources endowment gaps between what the poor have and what they would need" (Heeks and Gordon, 2000) to harness the potential of ICT. As noted earlier, ignorance of pre-existing social structure is one of the criticisms of earlier development initiatives. To avoid this we might have to think of ways of supporting grass root level organizations that are already engaged in development activities through ICTs. Addressing the training and capacity building needs of intermediary organizations that are already engaged in poverty alleviation program seem to be a realistic means to examine the role of ICTs in development.

Capacity Building

Involvement of people and augmentation of abilities of individuals and various organizations are critical dimensions of much development activities. The concept of "capacity building" has come to be much emphasized in the development discourse over the last couple of decades. Dale (2000) notes two reasons for the growing emphasis on capacity building within NGO context: increased stress among development agencies on
"good governance" and widespread disappointment with long-term impacts of much
development work which has often been largely attributed to a technical emphasis and a
delivery attitude in such work. However the concept of "capacity building" is not clearly
understood within development institutions. Capacity building may apply to individuals,
organizations and various systems for regulating and managing societal affairs.
Augmentation of the capabilities for development work and building organizations and
institutions to that end are essential aspects of capacity building. Eade (1999) provides a
comprehensive analysis of the idea of capacity building and argues that capacity building
is an approach to development and not something separate from it. She identifies
different aspects of capacity building within the context of NGO and larger civil society
(summarized below).

Capacity Building in the NGOs (Eade, 1999)

<table>
<thead>
<tr>
<th>Capacity building in the NGOs</th>
<th>Capacity building as means</th>
<th>Capacity building as process</th>
<th>Capacity building as ends</th>
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<tr>
<td>Strengthen organization to perform specified activities (one of which may be to build the capacity among the primary stakeholders)</td>
<td>Process of reflection, leadership, inspiration, adaptation and search for greater coherence between NGO mission, structure and activities</td>
<td>Strengthen NGO to survive and fulfill its mission, as defined by the organization</td>
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Capacity Building in Civil Society (Eade, 1999)

| Capacity Building in civil Society | Strengthen capacity of primary stakeholders to implement defined activities | Fostering communication: process of debate, relationship building, conflict resolution and improved ability of society to deal with its differences | Strengthen capacity of primary stakeholders to participate in political and socio-economic arena according to objectives defined by them |

Capacity building exercises might not necessarily benefit the beneficiaries of the program directly, but might target development workers and organizations—*for the benefits of the others*. Taghioff (2001) notes that these actors have come to “represent legitimate fora for the formation of consensus”.

However, ICTs needs to be integrated within ICT handling efforts of intermediary institutions (Taghioff, 2001). Enhancing the social and technological capabilities of intermediaries' institutions like the NGOs is likely to have implications for development work in general and beneficiaries they serve. It seems worth the effort to encourage and support intermediary institutions, where possible, to enable them to achieve their development goals.
Social and Technical Capabilities

Robin Mansell (2001), while commenting on the opportunities opened by "knowledge-based development" argues that:

"there are three major prerequisites for this development process. First is communication network connectivity at affordable costs. The second is the availability of local capacities to generate sources of information and to access those, which are available externally. The third, and arguably the most important is the capability to transform local and external sources of electronic information into socially and economically useful knowledge."

Considerable policy initiatives, technological solutions and research attention are being paid now to address the first two issues. But the ability to access, apply and assess information resources available digitally has not received attention. Mansell adds that "All prerequisites for knowledge-based development involve new social capabilities, but it is the third area that is the most critical for ICT users. Inequities in this area are likely to be major contributors to the regeneration of social and economic disadvantage in developing countries."

Social capabilities complement technological capabilities when they contribute to generate economic growth and social benefits (Mansell, 2001). Technological capability can be defined as the ability to manage the technological function of an enterprise (Trindade, 1991). Thus building social and technical capabilities of the individuals and
organizations to take advantage of the potentials of ICTs might be a short-term, but realistic approach to establishing a link between poverty, development and ICTs. But NGOs are typically perceived as laggard in the use of technology in general and ICT in particular. They are also often passive users of technology rather than innovators in their own right. As Mansell adds "those with access to ICT innovations—those with the capacity to absorb them and use them—are more likely to have opportunities to gain social and economic advantage than those without the relevant capabilities. Those people with no access to ICT-using capabilities risk being marginalized in the 'knowledge-based' development process." She goes on to argue that the "most critical inequality or gap in the knowledge-based development process will be the absence of broadly based skills and knowledge relevant to the use of ICTs and the new 'digital' forms of information".

From the above discussion, it is clear that the capacity building of institutional intermediaries with regard to ICTs is one possible way to link ICTs to Development and poverty. Thus the following questions seem appropriate for further discussions:

- What are the local, grass-root level initiatives that are currently being pursued for overall development and poverty alleviation?
- What organizational and institutional forms are in place to address the issues of poverty and gender inequality?
- What are the enablers and inhibitors of alignment of the development, institutional and ICT strategy?
- How can we strengthen the capacities of intermediary institutions to take advantage of the ICTs?
There are many kinds of institutions that can play an intermediary role in development. Non-governmental Organizations form one such sector. The approach proposed here emphasizes the social actors such as community-based voluntary organizations in social and economic life of poor people. The issue has been widely discussed in development literature (Brown and Tandon, 1994). As argued earlier, existing actors who are specifically addressing development and poverty alleviation needs need to be identified to link poverty, development and ICTs. One such that has become the focus of much development activities today is micro-finance programs.

To understand how ICTs can support micro-finance initiatives for poverty alleviation, we need to briefly examine the institutional framework within which such programs are conducted since adoption of ICTs takes place within this context—Non-governmental organizations (NGOs)

**Overview of Non-government organizations as Institutional Intermediaries**

In the last few decades there has been growth in the interest of what have been variously named as non-governmental organization (NGOs) nonprofit organization, voluntary sector, third sector etc. NGOs claim relative autonomy from the state and the market, thus come to represent the civil society. Renewed social science interest in the concept of civil Society’ in relation to the “third world” contexts has also focused considerable search attention on the third sector in recent years (Hann and Dunn 1996).
NGOs are characterized by their non-profit status, value-based orientation or as a cadre of volunteers carrying out the organization's mandates such as education, health, peace, human rights, environment, poverty alleviation etc. This important sector of our society seeks to address the needs that would not otherwise be met by either the government or the private sector (Drucker, 1990; Fine, 1990). There has been heightened profiles of these types of organizations amongst policy makers, development theorists, activists in both Northern (developed countries) and Southern (developing countries) context. The interest in NGOs has arisen partly in response to the perceived failure of state-led development approaches during the 60s through 90s and the inability of the market to serve all sections of the society fairly.

NGOs serve as a critical link in the chain because they have shown to be an effective institutional mechanism for carrying out poverty alleviation initiatives and claim to have relatively "competitive advantage" over the state-led poverty reduction efforts. The state sector has recognized the role the NGOs can play in this process. For example, the Seventh Five Year Plan (1985-90, pp66-68) states that:

there is a good deal of voluntary effort in India, especially in the field of social welfare. The tendency so far has been to equate the work of voluntary agencies with only welfare activities and charity work...There has been inadequate recognition of their role in accelerating the process of social and economic development. These agencies have been shown to play an important role by providing a basis for innovation with new models and approaches, ensuring feedback and securing the involvement of families living below the
overty line. Therefore, during the Seventh Plan, serious efforts will be made to involve voluntary agencies in various development programs particularly in the planning and implementation of programs of rural development. Voluntary agencies have developed expertise and competence in many non-traditional areas to plan their own schemes instead of expecting government to do so.”

agupta(1975) even argues that non-government organizations have contributed even more than the state. Non-governmental organizations (NGOs) have often been the motivators for formation of organizations of the poor. They have both grown in size and scope of activities in the last two decades. They have acquired vast experiences in the area of grassroots development processes, people’s participation, empowerment strategies and building of sustainable organizations. The key difference between the earlier poverty alleviation efforts of the government and those initiatives taken by the NGO sector is that later has paid greater attention to the specific needs and constraints of women in poverty.

nderstanding NGOs

ile often overlooked for the significant effect they have in the nation, as a whole institute a small part of the economic force in the country, and are dominant in may as. NGOs are legally prohibited from distributing profit to their management (non-distribution constraint). Non-distribution constraint is the key for NGOs experience 1987). Hansmann argues that because the organizations cannot distribute
profit to management and have no owner, dynamics arise that lead them to be more likely to be concerned about societal implications, and to be less likely to do things that are damaging to society, as might be done by profit-seeking firms.

NGOs might have linkages with government and might also engage in collaborative activities, as may NGOs do today, but they are formally independent of the state and the market. This difference however is less clear in the case of micro-finance institutions as will be made clear in the next section.

**Perspectives on the Development of NGOs**

Number of theoretical perspectives has now emerged to account for the growth, development and impact of NGOs in development programs. Lalamon and Anheier (1999) after a comprehensive review of NGOs and nonprofit organizations in developed and developing countries have identified four major theoretical perspectives that seek to account for the growing significance of NGOs in development. These are:

- **Market Failure Theories**—Failure of government and the market to address the issues of development and poverty is suggested as main reason for growth of NGOs. The existence of demand for public goods that are left unmet or unsatisfied by the state, have led to the emergence of the third Sector This theory argues that more diverse a society in religious or ethnic terms, and therefore the more diverse the conceptions of the good life and the desirable bundle of collective goods that must be supplied, the larger the NGOs sector
that is likely to be (Weisbrod, 1977). This perspective is perhaps widely held view amongst NGO sector.

**Supply Side Theories**—The principle explanation for the emergence of NGOs is attributed to supply of entrepreneurs with commitment to establish NGOs to meet the demand created by development initiatives. According to this theory, the formation of NGOs to meet the human needs is one way that religious zealots can win adherents to their cause (James, 1987).

**Partnership Theory**—this perspective argues that NGOs have not emerged as an alternative to state for delivering public goods but usually work grow in parallel and even in cooperation with each other. This is so because both (state and NGO) are responses to the same set of social pressures for expanded public goods, and each bring to the responses to these pressures unique attributes that to the lacks—the ability to generate resources on the side of the state and the and the ability to deliver services at the local level on the side of the NGO Sector. Far from operating in conflict, the State and NGOs work hand in hand (Salamon, 1987).

**Social Origin Approaches** argue that the NGOs sector is deeply embedded in the social, economic and political dynamics of different societies. As such its evolution cannot be attributed to single factor, such as unsatisfied demand for public goods or the supply of nonprofit entrepreneurs. Rather the emergencies of NGOs are rooted in the broader structure of class and social groupings in a society. In particular, vibrant NGOs are likely to emerge where the hold of traditional land elite’s and power structures are effectively challenged by middle class elements, or where traditional elites turn to such institutions as a way to forestall more radical demands from below, often in alliance with conservative
Two important assumptions can be found in NGO led development initiatives. Firstly, it is purposive, which means that its goals is either growth/progress or emancipation. Secondly it believes in intervention. Meshack (2000) notes: "Intervention is considered essential to achieve the goals of progress or emancipation. It is here that the NGOs action comes to play a major and significant role, since it is collective intervention for bringing in social change. Intervention could be either positive or negative. Positive intervention is a collective interest in favor of emancipation and progress of people—emancipation or liberation from structural oppression and progress that assures basic needs and better conditions of life to all. Though there is no unanimity in their understanding of intervention and the ideological framework alters their activities, yet their sustained efforts in providing better conditions of life for the poor are uninterrupted".

Despite a great diversity in ideological position and strategy for development most voluntary sectors has a conviction that intervention should be interpreted as a sustained application of thought to the matter that concerns them deeply. Also intervention should foster a broadly based non-sectarian radicalism (Oxaal et al 1975).

However there are also considerable critiques of NGOs in development in recent times, not least of their effectiveness, management and efficiency. Questions have also been raised about their claimed autonomy from the state and the market. There is no guarantee that voluntary sector, a crucial component of the civil society, would act in the best
interest of the collective good. Despite these, often-legitimate criticisms, NGOs are likely to continue to play an important role in development process.

**NGOs in India**

Voluntary action is not a new phenomenon in India. Scholars such as Mathew (1984) and Kothari (1985) argue that voluntary organizations do not fall into single camp. They are extremely heterogeneous. They work under various ideological backgrounds and their activities vary. Meshack (2000) provides a comprehensive assessment of historical development of voluntary sector in India. Voluntary organizations in India are shaped by variety of factors they have been nurtured and threatened in turn as the dominant political outlook has oscillated between liberalism and statism (Patel, 1998) But there are no reliable data as to how many voluntary organizations are there in India. "...existing literature on voluntary associations is that there is a dearth of factual information. For example, we do not have even a rough estimate of the total number of voluntary organizations functioning in India: estimates range between 50,000 and 100,000. One of the main reasons cited for this lack of information about voluntary sector is absence of agreed definition of to the basic term. Baxi (1986) suggests a very concise typology for voluntary sector as Voluntarism and Activism or traditional Vs contemporary social and community action. He considers voluntarism as service-oriented agencies for the victims, based on the philosophy that 'every society would have victims who need to be cared for'. Therefore they never radically question the condition of people, or the structure that victimizes the poor and marginalized them. Baxi (1986) comments that 'compassion and
charity constitute the ethical foundation for voluntarism. Although voluntarism tends to create community solidarity, their aim is not to bring political emancipation or participation. The other kind is Activism. It is an attempt bring concrete societal alternatives in justice, health, education, participation, and protest to the disadvantaged. The activist work towards empowering the people (the victims). They aim at achieving a just and participatory society. The emphasis of the activists as Baxi argues is on the rights of the people which the state is duty bound to respect: and at least minimally the rights are those whose effective exercise for the masses as well as classes is assured by the constitution. Meshack (2000) identifies four major approaches to voluntarism:

- Charity, Relief and Rehabilitation Approach (provision of immediate relief and work towards amelioration of specify distressful situations or conditions—e.g. suicide, alcoholism, natural calamity)
- Gandhian Approach (Economic Growth and Development with a stress on self-reliance)
- Paulo Freire's Conscientization Approach (Mobilization of the poor and the marginalized)
- Latin American Liberation theology Approach (class struggle as basis of underdevelopment and reliance on Marxist analysis and seeking alternatives to capitalism)

NGOs have many special features. Their structured working practices and operating procedures reflect the fact that although they share features in common with many of their private sector counterparts, certain values provide a series of distinctive constraints
to the management of the NGOs. Smith (2000) for example, claims that 'voluntary altruism' is one of the key distinctive features of NGOs.

While NGOs in India fall into the above mentioned categories, a relatively new form of institution called micro-finance institutions (MFI or MFO) have emerged to address the issue of poverty and social exclusion, especially women. MFIs are simply NGOs who have their main objective as poverty reduction through financial intervention. MFIs are now in a varying degree engaged in formation of grass-root level collectives of poor as a means for social and economic empowerment (often called self-help groups). These complex dynamic organizations of the poor have developed strategies for addressing poverty at the local level with the objective of improving their life and for empowering them. Many argue that micro-finance approach has proven to be most successful and sustainable strategy for fighting conditions of deprivation and poverty (Harper, 1998; Fisher and Sriram, 2002).

However, NGOs are primarily seen as a critical crux of civil society and are social-service based sector. They also face with non-distributive constraints and thus work within some legal constrains. The question has often been raised as to where (micro) financing fits in this scheme of things of NGOs.
Poverty Alleviation and Women's Empowerment through Micro-Finance Interventions

Report of the Task Force on Supportive Policy and Regulatory Framework for Micro-finance set up by NABARD in 1998 defines micro-finance as:

"Provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban or urban areas for enabling them to raise income levels and improve living standards" (Task Force Report on Micro-finance, NABARD, 1998). It is important to understand the difference between Micro-credit and Micro-finance. Micro-credit model is based on the premise that the poor need loans to protect themselves from economic exclusion. Micro-finance approach, on the other hand, offers a range of quality, flexible financial services in response to the wide variety of needs of the poor in which credit is one component. Emphasis is laid on building the capacity of the poor to enable them to access such services.

The main goal of micro-finance programs have been to promote livelihood options for the poor (especially women) in a sustainable manner. It is based on the perception that women's poverty is "mostly directly related to absence of economic opportunities and autonomy, lack of access to economic resources, including credit, land ownership and inheritance, lack of education and support services and minimal participation in decision making process". Micro finance achieves this through enabling the poor to form their own organizations (SHGs) at the local level.
Micro-finance has been come to be perceived as a practical, workable ‘solution’ to the deep-seated challenges of poverty. It is based on the belief that lasting solutions to mass poverty can be found upon increased self-reliance and participation of poor people in their own development (Basu and Jindal, 2000). Most of the poor are able to help themselves by generating modest increase in income by engaging in small enterprise and employment, if only given the opportunity to do so (Harper, 1998; Rutherford, 2000). Identification of livelihood options and providing financial and social support to bolster it, is the critical crux of micro-finance programs. Micro finance achieve this through enabling the poor to form their own organizations at the local level often called self-help groups. The key difference between the earlier poverty alleviation efforts of the government and micro-finance initiatives led by the NGOs sector is that the later has paid greater attention to the specific needs and constraints of women in poverty. Micro-finance as a strategy seeks to alleviate poverty as well as gender based social exclusion.

Two critical debates within development field converge on micro-finance. The first is the approach that emphasizes financial intermediation along with social intermediation as a strategy for poverty alleviation. Second incorporates Gender in Development (GID) and Gender and Development (GAD) approach that emphasizes women’s participation and empowerment. These two issues are the core of micro-finance strategy.
Rational for Financing against Poverty

With vast majority of countries in the world turning to capitalism as a form of social and economic organization, two critical issues have been identified (Hulme and Mosely, 1996). Firstly, capital investment is a key factor in determining economic growth and raising income. Secondly capital market in most developing counters do not work well. Neo-liberal approaches, epitomized by World Bank, International Monitory Fund (IMF) and other international and multi-lateral agencies, have sought to invest in: large macro-level projects such as dams and have, for long, ignored small farms and businesses. In fact, many rural development strategies lead to increase in poverty and inequality (Caufield, 1996).

While in India, government have been promoting Small Scale Industries (SSIs), and political rhetoric often refer to the “upliftment of the poor”, they have also, by and large, designed and implemented programs that benefited rich farmers and entrepreneurs. They have also excluded women in the development process. Provision of financial services to poor has always been on the agenda of the governments of many developing countries.

Since 1950s, development strategies have aimed at enhancing agricultural productivity and profitability for farmers along with specific programs to help rural poor meet their basic needs. Large-scale financial programs that specifically target the poor have been designed. This has lead to the creation of a vast network of Regional Rural Banks, Co-operative Banks etc. The best known of these initiative in India is the Integrated Rural
Development Program (IRDP). Yet, these institutions have not been effective for number of reasons. Many such early programs, implemented by the government, were not able to satisfactorily deal with information uncertainties and hence resulted in weak incentive structures, heavy bureaucratic and politicized approaches and inevitably low repayment performance.

Hulme and Mosely (1996) provide perhaps the most comprehensive assessment of financial intermediation for poverty alleviation efforts. They argue that

- Informal finance market for poor often do not exist and if they exist they are monopolized by local money lenders. The real option for poor farmer who is need of credit, get them at very high interest rates from these money lenders or simply opt not to get the credit at all (thus lowering productivity). There is scarcity of funds in rural market.

- The presence of risks of non-repayment against which the lenders cannot insure, neither by gathering more information about the borrowers’ motives and projected cash-flow (since the borrowers cannot supply these), nor by taking collateral (since the borrowers is too poor to supply it), nor by buying insurance (since even that is not available for the risks in question).

- The private sector is very reluctant to invest in creating the knowledge that will push forward the frontiers of financial intermediation in rural market, as they too are risk averse.(ibid)
The Indian government run Integrated Rural Development Programs (IRDP), while realizing the need to fill the credit gap in the rural market, worked from many assumptions pertaining to the poor which were at variance with poor people's reality. These programs rested on a set of working assumptions such as:

- Poor have no capacity to save and are not bankable. Their capability to save is limited.
- High interest rates are crucial factor in borrowing decisions as they contribute to the bulk of borrowing costs. Poor, however, cannot pay high interests.
- Poor are high risk groups for credit and are not creditworthy. Lack of information about creditworthiness makes them high risk categories.
- Consumption credit being unproductive, it should not be granted by rural credit agencies.
- Their condition could only be improved through essentially subsidy linked poverty alleviation credit programs. Adverse effects of pricing and exchange rate policies can be addressed through subsidies only.

Credit was funneled to particular economic groups picked up by the government, using whatever institutions offered a delivery mechanism. A set of working principles and motivation was shared by this approach:

- An emphasis on capital subsidies
- Low rates of interests on loans
- Soft lending terms with longer maturity
- High transaction cost (due to low interest margins and small loan size)
- Reduction in appraisal and monitoring costs
- Poor mobilization of voluntary savings and heavy dependence on central banks or foreign aid

The Agricultural Credit Review Committee (1989) in India has documented the problems of rural credit delivery system. The major problems identified by the committee, amongst other things, was the repayment and recovery of loans at the borrower level and the consequent weakness of the entire institutional credit system. Karmakar (1999) identifies the following problems with rural credit programs, aimed at rural poor:

- Inadequate procedures for loan appraisal
- Insufficient effective demand in some areas
- Non-viability of rural credit institutions
- Maintenance of a cheap/administrative credit system
- Debt write-offs leading to fall in bank recoveries
- Bureaucratization of rural credit and non-availability of skills in rural branches
- Inadequate loan monitoring systems leading to poor recoveries
- High transaction costs for banks and for borrowers
Most significantly they assumed a casual link between receipt of credit by individual borrowers and their subsequent economic growth. The rural credit programs turned unviable due to high inflation, fixed interest rates, overdue and defaults. Further, these programs were target-led shifting the focus from poverty alleviation to meeting the target (for example loan melas were organized to distribute the loans). The consequence was low rates of recovery, which simply reinforced the founding assumptions. The government financial institutions, despite good physical infrastructure and financial support could not address the issue of urban and rural poverty. They could not meet the credit needs of the poor. Further the real beneficiaries of “cheap” rural credit often turned out to be rich or well-off farmers rather than rural poor. The benefits were collected only by big. Also, IRDP programs underplayed the potential of savings. There was a problem of improper targeting of beneficiaries. Often the borrowers perceptions and viewpoint were left out. Targeting poor women were not in the agenda and they thus ignored many of the earlier criticism raised by GID and GAD approaches. IRDP programs were stigmatized as an example of how not to do poverty-focused rural credit. Kamakar (ibid) identifies three critical problem areas

- Screening Problem: Borrower behavior, especially as regards default is difficult to predict and it is costly to determine the extent of the risk for each borrower.
- Incentive Problem: It is also costly to ensure that borrowers perform as to ensure repayment.
- Enforcement problem: It is very difficult to force repayment of rural credit.
- After an extensive and through review of rural credit systems and institutions,
Kamakar poses a fundamental question:

"Here the central question that needs to be answered is whether it is better or proper organizationally to reorient attitudes and to improve the working of already existing institutions to meet the needs of rural credit, or to create an entirely new institutions. Further, the problem of vested interests cannot be isolated from the wider issues of such interests operating in the political, economic and social sphere. Instead of removing vested interest the basic problem may only be avoided by creating new institutions" (ibid, 51)

In response these criticism, NGOs started building the case for an alternative approach to lending to the poor—micro-credit. Micro-credit came to be seen as having a potential for poverty alleviation. Experience of organizations such as Grameen Bank suggested the need for creation of alternative institution that would take up the task of financial intermediation for poverty reduction and simultaneously address issues of social exclusion.

Rational for Incorporating Gender Dimensions in Development

The second line of approach was part of larger feminist movement towards incorporating gender analysis and dimensions in development programs. As mentioned earlier, women in Development approach challenged the 'trickledown' theories of development, arguing that modernization was impacting differently on women and men (Melkote and Steeves, 2001). The early and successful efforts to ‘integrate women into the development process’ (Boserup, 1970)
were based on an analysis, which was concerned that women were being excluded from the development process.

The 1973 Percy Amendment of the United States foreign Assistance Act to explicitly consider and include women in the development process provided further encouragement to the efforts of WID (Tinker 1990). The UN Decade for Women brought great visibility to WID during the period 1975-85.

The WID specialists sought to integrate women into the mainstream of economic development and lobbied to ensure that the benefits of modernization were available not just to men but also to women. Women's access to education, employment, training, capital, credit and land were emphasized.

Traditional development initiatives guided by the dominant paradigm are confined to the activities of much-promoted, WID programs which works mainly through addressing the practical needs of women. Women (primarily young unmarried) are targeted for skill-training programs to enable them to overcome their limitations as an 'under-utilized economic resource.' These programs supposedly enable them to support the country's economic development in what are considered 'appropriate' women's sectors such as street-hawking, garment industry, hotel services and catering.

In WID approach, women are also targeted with income-generating projects, which focus on stereotypical work such as sewing thus keeping them in home and domestic sphere in
line with their perceived roles as wives and mothers. (Bagati, 2002) Such stereotypical prescriptions reinforce traditional gender relations and undermine women's capabilities. Thus traditional development approaches effectively inhibit the equity and participation of women in community change. They reinforce myths about gender roles and needs, as well as gender and community relations (ibid.)

In the mid-70s, the call for equity was incorporated within the rubric of meeting basic human needs and poverty alleviation. This move addressed the subject of equity between the sexes without upsetting the male-bias in the development discourse:

"Casting women in the role of managers of low-income households and providers of family basic needs retained a reassuring continuity with earlier welfare approaches.... It also incorporated the WID concern with women's productive roles by recognizing that these responsibilities had an economic component and therefore required income-enhancing measures" (Kabeer 1994).

Thus the WID called for equity based on sex was co-opted under the argument of economic efficiency (Moser 1989).

In the 1980s, many studies that focused on the communication-related issues documented women's continued marginalization and even a worsened situation as a result of development. Through the 1980s and 1990s, the WID approach has been criticized and
broadened in two stages. WID approach has been criticized for subscribing to the dominant model of modernization and not critically addressing the structures of domination and patriarchy in the development discourse. WID was criticized for focusing more on women's reproductive role and practical needs rather than her role in economic production. These criticism lead to Gender and Development approach (GAD)

GAD arose in the late 1970s from a questioning of the WID notion that it was the exclusion of women from the development process rather than the process that was the problem. Women researchers from the South belonging to the Development Alternatives with Women for a New Era (DAWN) for example, questioned if women in the South really wanted to be integrated into a patriarchal Western mode of Development (Sen and Grown 1988).

GAD went beyond the creation of equality between the sexes. It questioned the fundamental assumptions of the dominant social, economic and political structures that accord and bring about an inferior status to women relative to men. The conceptual framework of GAD incorporates the following propositions:

- Women are incorporated into the development process in very specific ways.
- A focus on the women alone was inadequate to understand the opportunities for women to change.
- Women are divided by class, colour and creed.
- Any analysis of social organization and social process has to take into account the structure and dynamics of gender relations.
According to Young (1993) it is both the ideology of male superiority as well as the control of valuable resources (capital) by men that is at the heart of women's advantage. Thus the GAD analysis went beyond the goal of equating women with men, to look at the distribution of power in societies and its relationship to gender relations. It was argued that improvement of women's life conditions were statistically related to societal improvement. Women were suffering not just from income poverty but also from exclusion from basic services (UNICEF, 1987). Moreover, societal progress is correlated with improvement in the lives of women and children. GAD approach claimed that even when application of participatory methodologies intended to minimize biases, women were often marginalized.

GAD sought to understand and transform the mechanisms underlying dominant, male-dominated development paradigm rather than seeking to improve the integration of women into these paradigms. A GAD framework focused on transforming unequal power relations within, and between women and men rather than on women's roles themselves (CCIC, 1990). However some authors have argue that the framework suggested by GAD is not enough to support empowering and equitable change (Kindon, 1998). They have called for reassessing the understanding of and interaction with the "community" and the institutional framework within which the efforts are located.
Convergence of Financial Intermediation and Gender Concerns in Development

These two perspectives, one that emphasizes financial intermediation and the other that seeks to incorporate gender dimension in development converge in micro-finance programs. Micro-finance practitioners have challenged the assumptions and implementation process of IRDP and similar government-run credit programs for the poor performance in terms of organizational efficiency, people's participation and impact. They have sought to develop an alternative system, which promised to be more effective in reaching the poor. They have also sought to explicitly incorporate gender analysis in their development initiatives. Many of these initiatives were started by non-governmental organizations (NGO-MFIs) such as SEWA, ICNW, which focused on integrating financial and social intermediation and specifically focusing on women. These organizations, essentially, argued that

- Credit and other financial services are a basic need of the poor and hence a critical area of intervention.
- The best strategy for intervention is to mobilize the poor themselves into groups and thus support their self-reliance.
- The focus of micro-credit and other forms of financial intermediation should target the poor women, marginalized groups (tribal, Dalits) and their emancipation.
- Financial intermediation is not enough and that they should be accompanied by social intermediation (see below for discussion)
Micro-finance initiatives, with its methodologies and conceptual framework seem to present attractive alternative for bringing in gender sensitivity to development. It seemed that integrating WID and WAD would help overcome the inherent weakness of each.

World Bank in its 1990 policy statement suggested that extension of micro finance (or credit) to women was an excellent short and mid-term strategy especially when the governments are keen in promoting girls’ education and increased opportunities for women in the formal sector. The micro-credit summit, sponsored by the World Bank, formally launched a global campaign for micro-credit with aims lie self-employment, and business to reach 100 million of the world's poorest families, especially women by the year 2005. The summit aimed at eliminating extreme poverty by the year 2005. Some of the issues relating to micro-credit discussed at the summit are:

- The poor are as good a credit risk as anyone else.
- International and national financial institutions should specifically plan for micro-credit.
- High repayment is a sign of a well-run micro-credit programme.
- Micro-credit by itself is not sufficient for development to take place.
- The focus should shift from micro-credit to micro-finance and then to micro-enterprise development.
- Beneficiary participation is required to manage micro-credit programs.
- Training of staff and beneficiaries is important factor in successful micro-credit enterprises.
The importance of micro-finance as a strategy for poverty alleviation has been increasingly recognized by the development sector (Wright, 2000). It has come to be regarded as an effective and alternative channel of finance - particularly for the micro-enterprises established by the rural and tribal poor families - because it is considerably cheaper than informal sources (e.g. money lenders) while being more easily accessible than the commercial banks of the formal sector. It also provides flexibility in the design of micro-finance products (loan terms specially tailored to the needs of borrowers) which commercial banks cannot.

Conscientization and Micro-finance Approaches to Poverty: Are they in Conflict?

Conscientization Approach of Paulo Freire provides a humanistic response to liberation of people. He believed that education should focus on human liberation. The primary concern of literacy program should aim at promoting revolutionary social transformation. The culture of silence, which the poor are conditioned to, should be transformed. Freire suggests that transformation of society and its social structure must be based upon the reflection and action of individuals who opt for humanization of people. His program was aimed at enabling people to learn to perceive social, economic and political situations through critical reflection and action, which in his opinion is Conscientization. People must be made aware of their social reality, reflect on it and criticize it to work for changing the social structures that dehumanizes people. Freire’s methodology known as “consciousness-raising” is primarily based on a philosophy which relies on the capabilities of the people to understand, learn and act in the manner that can bring a
change in the course of their history. Many NGOs (particularly BRAC and GSS in Bangladesh)\(^1\) have adopted this approach for poverty reduction. The essential analytic premise underlying such a strategy suggests that poverty is sustained by the prevailing inequality in the structure of power and access to resources and that this can be rectified only through effective challenges to the system. Such challenges can however, be effective only if and when poor are mobilized, and only when actions are organized collectively by the poor. While this strategy does not reject outright provisions of credit and economic resources to members, they do not see such access leading to the weakening of structures that contribute to the reproduction of poverty. In fact there is a underlying fear that individual access to economic resources could actually have negative impact on the collective consciousness of the poor by promoting individualistic, competitive, profit-maximizing behavior (Hashemi and Hassan, 1999) Thus the Conscientization approach might be perceived to be in direct conflict with micro-finance initiatives. However, many NGO-MFIs do not believe this to be the case. The case of Gono Shahajjo Sangstha (GSS) of Bangladesh illustrates this point (See Annexure 5). This issue translated itself into a debate on what, in micro-finance parlance, often termed as social and financial intermediation.

**Social and Financial Intermediation Roles of NGOs**

NGOs working in the area of micro-finance not only emphasized financial intermediation, but also pay considerable attention to social intermediation. Social intermediation falls loosely within the conscientization approach as developed by Paulo

\(^1\)Bangladesh rural Advancement Committee (BRAC) and Gono Shahajjo Sangstha(GSS)
They involve building and often, capitalizing on the social capital of most poor communities. The following are some examples of intermediary roles that NGOs have played in micro-finance:

- Identifying Community Needs
- Giving Voice to the Poor
- Organizing Community Groups
- Increasing the bargaining power of the poor
- Building their capacity to deliver various services
- Supporting Participatory Processes
- Encouraging Partnership in Project Design
- Information Sharing
- Scaling Up and Scaling Down
- Channeling Financial Resources
- Fostering Sectoral Linkages (Health, Watershed, Marketing, etc.)

Most micro-finance institutions are often involved in varying degrees with regard to these types of interventions. And sometimes there is a sequencing aspect too with social intermediation being taken up first followed by financial and/or other intermediation. In fact, good social intermediation is viewed by many as a necessary condition for sustainability in micro-finance (Johnson and Rogaly, 1997). As a result, many programs are now beginning to devote a large amount of time to social intermediation activities. It is felt that this process would enhance long-term sustainability by ensuring ownership of
program by clients, generating greater demand for various services, enabling existence of peer pressure, inculcating credit discipline etc. Social Intermediation reflects the current emphasis on increasing the empowerment and participation of poor in development process.

There are others who stress that financial intermediation is equally or more important. And to substantiate this, they point out that the only tangibles in micro-finance are in financial intermediation products. Marcolm Harper et al (1998), while not explicitly undermining the importance of social intermediation argues that micro-finance is a profitable business proposition for banks and other financial institutions.

Nonetheless, notwithstanding the debate between social and financial intermediation, experts argue that building an appropriate micro-finance system that is accessible to poor people and yet sustainable for the lending institution is a challenge that can be overcome only if both types of intermediation exist, especially in an effective manner. This, they concur as necessary for overcoming the vulnerability imposed by continual reliance on subsidies (finance as charity) by establishing a market-based system (finance as business) that can operate on its own (Harper, 1998). And experience also indicates this can be achieved by a combination of financial and social intermediation.
The consensus now is that if mechanisms must be created to bridge the gaps created by poverty, illiteracy, gender, and remoteness, local institutions must be built and nurtured, and skills and confidence of new low-income clients developed, it is imperative to have effective social intermediation and sound financial intermediation. The balance between financial and social intermediation can be best understood by examining the SHG model of micro-finance—model extremely popular in India.

Self Help Group Model of Micro-finance

How are micro-finance programs implemented by the NGOs? How is the balance between financial and social intermediation sought? How does people’s participation operationalised in micro-finance programs? There are many approaches to provide microfinance services to the poor, the mostly popular being the Grameen bank approach which has been widely replicated (Harper, 2002). One of the major means through which microfinance programs try to reach the poor is through formation of self help groups (SHGs). SHG is an informal association of 10 to 20 women, socio-economically homogeneous with a background of affinity, who meet regularly to transact the business of saving and credit. It mobilizes savings from individual members and extends credit from the funds so mobilized to the needy members for consumption and investment purposes. The groups may take up other issues for the fulfillment of common interests without diluting its primary focus. SHGs draw on poor women’s ability to help each other, to pool their resources and to discipline each other. Poor have the capacity to help themselves, and to improve their lives, without subsidies or doles.
Poor, in particular those without adequate land holdings or paid employment, support themselves with myriad of self-employed, income generating activities in trade crafts, petty manufactures as well as agriculture. But they often lack credit in small amounts to finance their micro-enterprise activities. The credit that are available through traditional money lenders come with high interest rates and often bind them to a chain of bondage and dependency.

SHGs are formations that seek to address these gaps, among others. Primary objective of promoting such groups is to increase access to credit and other financial services, at an affordable cost, to meet the target groups consumption and productive needs. The key feature is that the finances are managed by the women themselves and enable women to bargain for own space within and outside her family. Group savings and credit rotation serve wide range of objectives than immediate investment (Kamakar, 1999)

- It imposes discipline on group members in developing savings habit.
- Savings enhance the self-confidence of the individuals as it is a sign of group encouragement.
- Savings cover the individual's risk against normal business risk, normal variations of income, natural calamities like floods, drought, cyclones and diseases. Investments of a riskier nature can also be considered because of savings cushion.
- Group savings of the poor can demonstrate the strength of unity of members.
Creation of awareness and non-formal education is integral to the activities of any voluntary agency involved in micro-finance. SHGs not only provide members with opportunity to carry out economic activities but also discuss and analyze their social and economic situation to arrive at the root cause of their problems, and strive to find and implement solutions. SHGs, therefore, become a forum for the collective choice of the poor against common oppression and exploitation, to understand individual and common problems and improve their skills and capacities to manage resources (i.e. social intermediation).

Staurt Rutherford (2000) points out the key features of these NGO-promoted groups. First these SHGs are composed of women. Secondly the leadership of the groups tends to revolve annually, so no one person gets to dominate the groups. Thirdly the interest rates charged are lower compared to traditional moneylenders. Fourthly SHGs tend to have a number of objectives such as women's empowerment, poverty reduction, leadership development, awareness raising (about issues deemed important for the poor, like alcoholism), business growth or even family planning or the development of group-based business. Fifthly the NGOs might help SHGs by lending money to the group or encourage them to take loans from the banks or get insurance cover from insurance companies. Finally the SHGs struggle to become permanent and seek to survive even after the NGOs have withdrawn.

Once the SHG is formed and working, linkages to external banks/agencies for loans and other support services can be built. Most recently SHGs have been seen as mechanisms to
provide insurance services to the poor. Studies (Fisher and Sriram, 2002) experiences of NGOs have shown that —

- SHG are ideal for collective action and decision making in a participatory manner.
- It also provides poor women a voice in the decisions which affect their lives.
- It can also enable women to organize and demand a more equitable distribution of power.
- Once women become aware of their own potential and are mobilized for improvement of their life styles, they can begin taking collective action in increasingly broader areas pertaining to their communities.

What has been its success in terms of meeting its objectives of poverty reduction and gender-based development? The literature in this substantive area tends to be pragmatic rather than academic, overtly optimistic and many assumptions left implicit. Areas where SHGs are found to have a positive impact include (Kanitkar 2002; Rtherford, 2001; Harper, 1998)

- Participation in financial matters (e.g. interest rates setting etc.), norms setting, leadership roles.
- Resourcefulness, self-reliance, resource mobilization (through own savings, external agencies etc.).
- Acquisition of new Income generating activities.
- In family decision making, mobility and sharing of work.
In playing institutional roles such as mediation.

Taking issues related to women's well being e.g. liquor consumption, wife beating.

Making demands on public systems e.g. health, sanitation etc.

Participation in public forums e.g. panchayats.

Micro-finance initiatives prioritizes financial intermediation, they are also engaged in social intermediation, taking on issues that challenge the very structure of society that is often blamed for inequality and social exclusion. The significance draws from its potential to be treated as grass-root level MFI in themselves and thus can be used to promote multi-layered structures (like the clusters, apex or federations), which can be linked to formal sectors like banks, insurance companies etc. Such MFIs, thus, would be composed entirely of poor themselves.

Promotions of women's SHGs are seen as means to empower poor women and enable them to participate in her own development. SHGs are recognized as a key transmission belt for development efforts by the state and the civil society, as indicated by many government linkage programs. SHGs create a unique emancipatory environment. It provides a safe space for women to share their experiences, ideas and concerns and confident of being listened to (Shanti, 2002). Such village level collectives are seen as a preferred institutional mechanism because they are —.

Gender Sensitive: SHGs are mostly women oriented with the focus on empowering poor women.
Participatory: They seek to achieve this through enabling women to participate in their own development

Community level intermediary: They are local and grass-roots level informal organizations

Capable of building Social Capital: SHGs are means through which social capital can be built. Such capital refers to trust, norms and network that would shape the quality and quantity of social interactions

Self-targeting—excludes those who are relatively well-off from group activities which ensure class and caste based domination does not take place

Cost effective: the cost of reaching groups of women already mobilized (usually by NGOs) is lower than reaching individuals

Participatory approach within micro-finance context means that greater attention is paid to issue of power and control when organizing development activities, for example ensuring that there are clearly separate women’s and men’s groups and providing access to women’s group as a policy decision (See Annexure 3). Women involved in SHGs are generally out-going, knowledgeable and enthusiastic participants, with many insights about the development needs of their communities (Shanti, 2002). They are simply inhibited by the conventional form of public participation

What accounts for the claimed successes of micro-finance programs, particularly the group based approach? Remenyi, (1991) argues that “At the time it is difficult to
assemble accurate and comprehensive data on the economic and financial impact of NGOs credit-based income generation projects of the poor....”

**Participatory Processes in Self-help groups**

The success of SHGs is often attributed to participatory processes inherent in such approach. Self-help group based approach with its focus on micro-finance intervention ground what other wise be an abstract discussion on participation. Four kinds of participation is sought:

- In decision-making, identifying problems, formulating alternatives, planning activities, and allocating resources
- In implementation, carrying out activities, managing and operating programs, partaking of services
- In economic, social, cultural or other benefits individually or collectively
- In evaluation of the outcome of the activity and provide a feedback for other aspects

At the operational level “participation” could be seen as a methodological stance, that informs every stage of project cycle—from problem identification (objectives) to the evaluation of the outcomes—monitoring and evaluation (See Annexure).

Finance knit women together by providing a practical, immediate reason for engaging in collective action. Once such a bond is established it provides a foundation for reinforcing many other collective identities (as women, tribal, wife, mother, bread-winner, etc.).
Particularly SHGs can be viewed as agents of social transformation that emphasizes collective action over individual. SHGs bring women from social isolation to cohesion.

When women enter micro-finance programs they are predominantly occupied with their practical needs. Only when they are confident that participation in SHG activities indeed meets these needs are they willing and are in a position to address many of the strategic needs. Women often generate different needs and community priorities. While women do identify practical needs related to income generation, health, clean water etc. they also express their strategic needs such as fighting male alcoholism, receiving training in management of finances within and outside household, and desire for men to share household tasks equally with them.

Micro-finance seeks to shift the locus of power and authority for decision-making away from men. It goes beyond providing verbal and visual challenges to power relations but calls for women to actively participate in decision making and management of their daily affairs.

Critical View of Micro-finance programs

The common reservations against credit programme for poor are (Kamakar, 1999):

- Credit alone is useless unless packaged with training, marketing, transportation facilities, technology, education, etc.
Credit to poor is counter-productive as it imposes the burden of loans on the poor who have nor repaying capacity.

The consumption and social needs are so pressing that any loan will be diverted from production requirements.

Chronic poverty has crippling effect on the mind and aspiration of the poor and this shackles the poor to lower levels of living.

The rural: power-structure is too powerful and entrenched to allow such credit program for poverty alleviation to succeed.

By encouraging poor to take up independent professions, a short age in wage labor will be created. This results in higher wages increasing the cost of agricultural production.

Credit programs for the poor will be highly inflationary and cause imbalances in the rural economy.

By extending credit to women, the traditional place of women in the family will be distributed.

Credit helps poor only temporarily and does not achieve an equitable restructuring of production relations.

Success of credit programs depend on wider national economic policy issues. If the terms of trade for food and cash crops between rural and urban areas are biased against the rural poor, credit programs will have limited effects.

Scholars such as Wood (1997) critiqued poverty alleviation through credit, characterizing it as “a pernicious, even when it includes participatory rhetoric, because it suggests
solutions independent of the structures which produced the problems”. Sheriff and Wood go on to argue that micro-credit “offers analibi for donors as well as nervous host government to withdraw from broader analysis of poverty into narrower, neo-liberal, conception on people’s financial liquidity”. Many NGOs and social development advocates continue to believe that credit cannot challenge some of the basic and structural reasons behind poverty”. They advocate “social mobilization, class struggle and conflict or collective action for social justice among the rural poor to break chains”(Wright 2000) But Wright asks whether a “quick revolution” might achieve similar ends as effectively without the confrontation, aggravated social (not solely class) divisions and violence.

After reviewing micro-finance initiatives though on-lending groups (their name for self help group based micro-finance initiatives) in India Harper, Esipisu, Mohanty and Rao (1998) conclude that “the evidence suggests, however that nearly all the members of On-Lending Groups benefit to some extent, although the benefit to the poorer members may be less, and longer-delayed than to the better-off. It is perhaps inevitable that those who are least in need should be the ones to gain the most, but in India in particular the majority of the members of the most groups are very poor, and benefits to any of them represents genuine social progress”. 
Micro-finance in India

Despite many criticism, the importance of micro-finance as a strategy for poverty alleviation has been increasingly recognized by the development sector. It has come to be regarded as an effective and alternative channel of finance - particularly for the micro-enterprises established by the rural and tribal poor families - because it is considerably cheaper than informal sources (e.g. money lenders) while being more easily accessible than the commercial banks of the formal sector.

India is fast becoming one of the largest micro-finance markets in the world, especially with the growth of women’s savings and credit groups (called self-help groups) which are set to reach 17 million women by 2008 ((Fisher and Sriram, 2002). Fisher and Sriram note that “In terms of micro-credit, India has nearly 400 million people living below or just above austerely defined poverty line. Approximately 75 million households therefore need micro-finance. Of these 60 million households are in rural India and the remaining 15 million are in urban slum-dwellers. The current annual credit usage of these households was estimated in 1998 to be Rs 465,000 million or US$10 billion. This represents usage and unmet demand.” They further calculate that NABARD’s target for 2008 of one million SHGs will absorb at least Rs.50.00 million worth of funds. SHGs and mutually-aided co-operatives in the state of Andra Pradesh also have already collected more than Rs500 crore (5,000 million) in micro-savings. In addition to savings and credit, the sector is also not reached by insurance products and services. Insurance demand for
the sector is not known clearly but are likely to be in the same magnitude as the savings and credit projections.

All these demand projection presents huge challenge for micro-finance sector. The sector is growing in size, scope and many micro-finance institutions are beginning to apply professional management practices to face this challenge. However, the micro-finance sector still caters to the needs of a very small section of the potential borrowers - about 1% of the poor families in India. In order to facilitate micro-enterprises and promote sustainable poverty alleviation programs, a critical need has been felt to expand the coverage of micro-finance to more areas of the country, involve more organizations in the activity and promote development of the skills required for undertaking the activity. Regulatory and legal frameworks are being created to support such efforts.
Conclusion

From the foregoing discussion it seem that micro-finance initiatives can extend opportunities for using ICTs in ways that are responsive to the needs of the marginalized. The micro-finance systems and procedures are, in theory, aligned to the goal of development and poverty alleviation. Micro-finance administration is an information-intensive activity to which application of ICTs have long been recognized as having enormous potential. Development Support ICT model (DSICT) would suggest that attention needs to be given to modifying and reconfiguring the technologies and applications to support such initiatives. Building the capacities of micro-finance institutions to harness the potential of ICTs would be a necessary but not sufficient step towards linking ICTs and poverty reduction initiatives. The contingency view of technology adopted here would suggests that we need to examine factors within the MFIs that mediate the influence of ICTs. The next chapter reviews relevant literature on Computer diffusion, adoption and impact in order to develop a theoretical framework for the context outlined above.