FOREWORD

Micro-financing has attained a special role as an instrument in poverty reduction the world over. There is a realization at both the government and donor agency levels that micro-finance programmes in India also enable empowerment of women. However, there have been doubts about this role. It is in this context that a study conducted at ISEC analysed the economic (e.g., improvement in livelihoods and access to resources) and social benefits (e.g., improvement in knowledge and participation) of selected micro-finance programmes on members in the specific context of two NGO programmes in Karnataka and Andhra Pradesh. The study also looked into the lessons from the selected micro-finance programmes, and examined the likely pointers on what could be the possible trends in economic and social benefits. This monograph is based on this major national level study for sharing the findings and for wider policy design applications.

The study shows that the micro-finance programmes did provide economic benefits to the people for whom the programmes were initiated. These economic benefits were access to credit for consumption and production and use of credit for undertaking income generation activities. It is important to note here that economic benefits will be more pronounced under several conditions. First, institutional mechanisms and incentives should be more conducive. Second, micro-finance groups should establish linkages with banks and obtain funds in addition to their own savings. Third, infrastructure such as marketing outlets, village amenities, etc., should exist. Fourth, there should be greater decentralisation. In other words, the people should take an active part in the formation and management of groups, and also obtain the necessary infrastructure. This leads to the hypothesis that the ability of the micro-finance programme to provide economic benefits depends on whether or not several factors are conducive for members to undertake income generation with the help of credit. The policy imperatives following the study, hopefully, will have much scope for designing the programmes for pronounced effectiveness.

An important issue raised in the study is on the sustainability of these programmes. Both the programmes depend somewhat heavily on donors for sustainability. The situation seems to be better among the Karnataka NGO's largely due to the presence of well-functioning federation of SHGs, and larger amount of credit fund built with the help of donors and NABARD.

On the policy front, the study concludes that the micro-finance programmes do provide access to credit for the poor, enable them to undertake income generation programmes and contribute to higher recovery rates. Given that the formal banks have not very well succeeded in the past in improving the access to credit for the poor, the strategy of supporting the formation and nurturing of micro-finance groups of poverty alleviation does not seem to be bad. However, the responsibilities such as development of economic infrastructure and providing additional funds to micro-finance groups (through mechanisms such as assessment of the quality of the group) must be undertaken by the government as the micro-finance programmes cannot alone alleviate poverty.

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