

## SPECIAL EDITION: EXPERT VIEWS ON THE DEBT WAIVER POLICY

In this issue of Eye on Microfinance, CMF interviews four experts to learn more about possible effects of the government's recently announced farmer debt waiver and relief program. Before introducing the experts, highlights from the government scheme follow below:

- (i) The scheme covers all agricultural loans disbursed by commercial banks, regional rural banks, and cooperative credit institutions through March 31, 2007 and overdue as of December 31, 2007.
- (ii) Marginal farmers (1 hectare or less) and small farmers (1-2 hectares) will receive a complete waiver of all loans overdue as of December 31, 2007 and all unpaid loans until February 29, 2008.
- (iii) Other farmers will be eligible for a one-time settlement scheme (OTS) for all loans overdue as of December 31, 2007 and all unpaid loans until February 29, 2008. Under the OTS, a farmer will receive a 25% rebate after paying 75% of the loan balance.
- (iv) Execution of the loan debt waiver and relief scheme will be completed by June 30, 2008. Following implementation, farmers will be entitled to fresh agricultural loans from banks.
- (v) The government estimates that 4 crore farmers will benefit from the scheme and overdue loan being waived will total Rs. 60,000 crore.

There are positives and negatives that stem from this new government scheme: farmers rightly welcome the debt relief, while policy circles and the development sector express concern about the waiver's impact on farmer work habits and credit discipline. The experts introduced below help us work through the government policy and its effects on India's farmers. The most updated details of the policy can be found [here](#) and [here](#).

### Meet The Experts

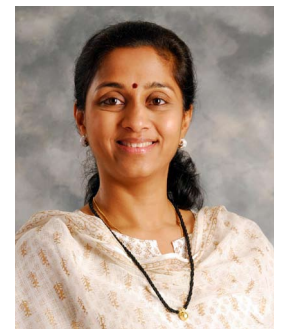
#### MS Swaminathan (Page 2)

MS Swaminathan is the chairman of M.S. Swaminathan Research Foundation and a member of Rajya Sabha. For his work of developing high-yielding varieties of wheat in India, he is known as "Father of the Green Revolution." He received the Ramon Mag-saysay Award for Community Leadership in 1971, the Albert Einstein World Science Award in 1986, and the first World Food Prize in 1987. In 1999, TIME magazine listed him as one of the "20 most influential Asian people of the 20th century".



#### Supriya Sule (Page 5)

Ms. Supriya Sule is Rajya Sabha MP from the Nationalist Congress Party, representing Maharashtra since September 2006. She has a B. Sc. degree from Jai Hind College in Bombay. In her two years as an MP, Ms. Sule has championed the cause of women's empowerment in her home state through Self-Help Groups and microfinance. She is also the Managing Trustee of the Pawar Public Charitable Trust and a Trustee of the Nehru Centre, Mumbai.



#### Vijay Mahajan (Page 3)

Vijay Mahajan is the founder and Chairman of BASIX, which is one of the largest livelihood promotion institutions in India, working with over a million poor households. He was educated at IIT Delhi, IIM Ahmedabad and Princeton University. He has been a member of several Planning Commission working groups, and also was on the Rangarajan Committee on Financial Inclusion and the Raghuram Rajan Committee on Financial Sector Reforms.



#### Malcolm Harper (Page 6)

Malcolm Harper was educated at Oxford University, the Harvard Business School and the University of Nairobi. He worked for nine years in a medium-sized household hardware manufacturing business in England, mainly in marketing. Since 1995 he has worked independently, mainly in India. From 1996 until 2006 he was Chairman of Basix Finance of Hyderabad, a leading 'new generation' microfinance institution, and he is Chairman of M-CRIL of New Delhi, the pioneer of microfinance credit rating in Asia.



**Note: Our interviews with the above were conducted before the government revised the debt waiver's scope on May 23, 2008. Therefore, expert views expressed here are based on the original form of the policy which was announced during the Union Budget 2008-2009.**

# MS Swaminathan

Founder and Chairman, MS Swaminathan Research Foundation

**Q:** Could we start with your overall impressions of the loan waiver?

**A:** The National Commission on Farmers (NCF)<sup>1</sup> actually recommended the loan waiver to the Ministry of Agriculture in 2005. The loan waiver is the beginning of a process in which our goal should be getting over 30 million small and marginal farmers back into the credit system and back to productive farming.

If you could look at the loan defaulters, they are mostly in non-irrigated agricultural farming areas, which is where about 60% of our farming occurs while the other 40% is on irrigated land. Moreover, the declining levels of groundwater has meant that even those who work on irrigated land are beginning to rely more on rainwater, and sometimes the rain fails. If a farmer has to repay a loan every year, and the rain fails in a couple of years, it is better to waive the loans and start off with a clean slate. This would help farmers to get out of the debt trap, especially if following the waiver, farmers become eligible again for institutional credit. So, the loan waiver should be the beginning of a process, not the end of a process.

Basically, we have a system of agricultural credit that is not structurally sound. The reason why the current loan system has failed is because none of the support systems that farmers possess in other countries like Japan and the United States exist here. We do not have effective crop or weather insurance systems. When the rain fails, farmers still need to pay back their loans. As a result, the farmer goes to a moneylender to pay off existing loans. This is what happens often with micro-credit; people are socially pressured to pay off the loans.

Therefore, if we can write off loans totaling thousands of crores for industrialists, our poor farmers who have no support system and no technology, who dry their paddy on the road, deserve a waiver. In the 21st century, we are leaving more than 80 million small and marginal farmers without adequate support systems, no technological support, or social support. How will they pay back the loans? Of course, the only other option for them is to commit suicide.

Unfortunately, the government has not crafted the loan waiver in a holistic manner the way the NCF recommended. I have been saying in recent articles that the loan waiver is important because there are no effective support services to insulate small farm families from risks beyond their control. No insurance, no support, no early warning system for rainfall, no immediate action to help them, except during famine when the government gives them free food. Under those conditions, my idea was that the loan waiver would help farmers. It's not a small number, including those who have had loan readjustments; 40 million out of 115 million, a little more than one-third.

**Q:** You mentioned that people would have hopefully come back to farming, what are the actionable steps, such as insurance that you mentioned, that we could take to help farmers?

**A:** We should provide support services such as seeds, technical advice, and appropriate mineral and bio-fertilizers, and pest management. Foreign experts who come here may not understand our agriculture very well. They try to influence policy, and it's a fiasco. One day they want to try Training and Visit (T&V) system of extension, and then other days they recommend other strategies.

Unfortunately, a lot of policy activity won't help at this point, because we are in grave circumstances. Last season there was no rain, until very late in the season, which damaged the farmers' crops. And, the water table has gone down deep, causing water prices to increase because the cost of pumping water is very high. The costs are too high, so farmers can't pay for the water. Subsidies could help.

Suppose that you are a small farmer in Punjab, and you produce 5 tons per hectare. You have two hectares, and accordingly produce ten tons of wheat. One ton goes to feed your family and some of your neighbors, so you have nine tons of wheat to sell. If you sell nine tons, you get 90,000 rupees because each ton is worth 10,000 rupees. Your profit margin is about 2000 rupees per ton, once you take account for water and fertilizer costs, among others. So, for the labour of five to six months by five to six people, you only earn 18,000 rupees. After paying the other workers, the farmer will only net maybe 2,000 or 2,500 rupees per month. Even farmers with irrigated land, they will not earn as much as Class IV government servants, who typically earn 5,000 – 6,000 rupees per

month.

So, I think there is a grave economic and ecological crisis. If farm economics goes wrong, it is hard for anything else to go right in agriculture.

**Q:** Moving over to some of the criticisms of this package, many people have claimed that while the package is a significant respite to farmers with formal loans, the vast majority of farmers, those who are really in distress, don't have access to formal loans. How would you react to this criticism?

**A:** Number one, you can't generalize all small farmers.

These criticisms are not new, and they get to an underlying challenge. Government policymakers like to create broad and general policies. For example, India has one standard time zone, Indian Standard Time, but we really reside in three different time zones. Generalizations are easy for our policymakers, and this influenced the set-up of the waiver policy and the eligibility criteria. It's a one size fits all approach to small farmers and their challenges. There are many different types of farmers, farmers working on arid land have different problems than those with irrigation, farmers that work in rain-fed regions face various challenges, and farmers with 5 hectares in unirrigated areas face different challenges than those with one hectare in irrigated areas.

**Q:** The point about the criteria for loan waiver eligibility, and the need for more variation, has come up several times. What are your thoughts on how the criteria could be improved?

**A:** With other government agricultural programs, such as the Land Ceiling Act, there are very different criteria for program eligibility. If a farmer works on irrigated land it must be at 10 acres or less, if rain-fed land 25 acres or less, for Rajasthan 50 acres or less [to be eligible for the program]. We already have the kind of parameters we need for land reform. All we need to do is take the same type of approach with the loan waiver program. In one of my recent articles in The Hindu, I suggested that the land size requirements for small farmers that work in arid land should be higher than those farmers with irrigated land.

Policies shouldn't be designed only to be simple or easy to generalize. Policies should be made to ensure that those targeted, in this case struggling small farmers, have their livelihood security rejuvenated.

**Q:** When we talk to politicians about the loan waiver, one thing that always comes up is that the policy should be practical and actionable. Would having different

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1. Of which Dr.Swaminathan was the Chairman

criteria for farmers on irrigated and arid land make executing the policy more difficult?

**A:** Just because a policy is simple does not mean it's practical. In Parliament, when discussing the loan waiver program, many of the politicians said that the program should be for all small farmers.

Ultimately, government can help only to the extent it can afford.

**Q:** Many people within the microfinance community fear that the loan waiver may impact the credit culture of our country. What are your thoughts?

**A:** This is a legitimate fear because some of the people receiving loans do not really need them. Today, I saw that the State Bank of India stopped giving loans for tractors, because people were not repaying these loans. Which farmers are buying these tractors? Not the poor ones the loan waiver program should be targeting.

The poorer farmers are not the ones to blame here. In fact, 30% of labourers in agriculture are homeless and many are not formally registered on the land. That is why I am supporting growing movements in Rajasthan and other areas to empower such farmers. For instance, MS Swaminathan Research Foundation (MSSRF) has had workshops with women farmers all over the country because many of their husbands are migrating to the cities looking for work. Many women are left with their children, and try to make a living by farming. They have often no title to land and therefore, rely on moneylenders.

**Q:** Now that you have brought up informal loans, do you think there would be a way to include moneylenders' informal loans in the loan waiver program?

**A:** Moneylenders are an institution that has been around a long time and that provide credit in a relatively holistic manner. Moneylenders may not be the sole reason for recent suicides. In some villages I have visited moneylenders charge rates that are too high and they are not good, but the same can be said for some microfinance institutions.

On a broader level, our loan system for farmers is very narrowly circumscribed. If farmers want money after receiving an initial loan that is, if they want to renew a loan, it's very difficult for them. To create a thoughtful credit policy, the Cost and Prices Commission needs to look at our farmers' consumption and agricultural needs.

**Q:** You said that in essence, the loan waiver is a good policy. But, 60,000 crores is a lot of money, and you also said that farmers need other types of support, such as technical advice and fertilizer. So, when we look at the efficient allocation of resources, would you allocate 60,000

crores to the loan waiver, or with the criteria you have raised, would you allocate this

money differently?

**A:** It's not that simple. With the loan waiver, you are reaching 40 million people that own land and are being re-launched into productive agriculture. If each of these farmers can produce half a ton more, we will create 20 millions tons of additional output. Today, 20 million tons of rice may cost more than 20,000 crores in the international market.

So, people will find the loan waiver useful. I don't think it should be the endpoint, but it's certainly a starting point of getting them back into productive agriculture.

**Q:** When you look at last loan waiver, which happened around 1990 by the V.P. Singh government, what lessons should we take away for our current situation?

**A:** There have been a lot of loan waivers, there have been loan bailouts that have damaged the credit system. We need to make the waiver one step in a process. We need to figure out a way to encourage the people receiving loan waivers to work really hard to produce more. There has to be a quid pro obligation.

In this instance, I think there should be a minimum of 20 million tons of additional food made. With the current rice price of 677 US dollars per ton; that means 100 million tons of rice would be worth 67.7 billion US dollars, or about 250,000 crores. So, the loan waivers need to be converted back to wealth.

**Q:** You have mentioned that this should be the first step to support farmers. What should come next?

**A:** It's simple, whatever the farmer needs. If a farmer is willing to take out credit, it could be seeds or fertilizer or diesel that they need most. Regardless of what an individual farmer chooses to invest in, it needs to result in production. Otherwise, if the farmer thinks we will once again waive the credit, and therefore the farmer does nothing, we will have more of the same. This loan waiver must be taken as an opportunity to revive agriculture. It should not be

an indicator of future loan waivers.

## Vijay Mahajan Chairman and Managing Director, BASIX

**Q:** Could you start by giving us your general impressions of the loan waiver?

**A:** Well, I think it was not a very wise move on the part of the government although they perhaps did it for political advantage. But in terms of the damage it will do to credit discipline and expectations of future loan waivers, it is problematic. As a result of this policy, any lender, whether they are in the public or private sector, will factor in the possibility of a future loan waiver, and therefore would like to keep their exposure to farmers limited. So in a sense, the loan waiver will quite perversely lead to a shortage of formal credit rather than solve the problem of farmer indebtedness.

**Q:** How do you think this will impact the microfinance sector?

**A:** I don't think this would make much of a difference to microfinance institutions (MFIs) for two reasons. First, most microfinance institutions in India, especially large ones are following the Grameen Bank Bangladesh (GGB) model, which requires weekly repayments and is targeted at landless households. So by definition, farmers are excluded from microfinance lending because first, they are not landless and second, they cannot make weekly repayments because of their cashflow pattern. BASIX is an unusual MFI in the sense that we do not follow the GGB model and almost 15-20% of our portfolio is to farmers for crop loans and another 25-30% for dairy and other allied activities. And our repayment schedules are totally different. For crop loans they are twice a year after the harvest and for dairy they are typically monthly – once a month for 18-24 months.

But in both cases, be it the MFI following the Grameen model where they are hardly lending to farmers or BASIX where it is lending to farmers, the difference will be marginal because poor people have a lot of common sense, and this is the second reason. They understand the difference between government loans, and a loan waiver given on that, and loans from a friendly, reliable MFI which comes to their doorstep and gives them continuous, timely and adequate credit. And because of those characteristics of MFIs, they want to maintain their relationship with an MFI. So, with the exception of some small pockets where there may be some local politicians who may foment non-

repayment, I don't expect this to make this to make much of a difference.

**Q:** In the past, through the Integrated Rural Development Program (IRDP), the government has disbursed a lot of subsidized credit to farmers. When microfinance became a mainstream method of providing credit to the poor, some argue that microfinance clients thought microcredit was similar to IRDP loans and therefore negatively influenced credit discipline. How would you respond to such an argument?

**A:** That is not true. I have known the IRDP since its birth and I have worked on the ground when the IRDP was implemented. The IRDP was not aimed at farmers. The IRDP was aimed at below-poverty-line (BPL) households, most of whom are landless or marginal farmers. And the most common asset that was given under the IRDP was a cow or a buffalo or some asset to start a non-farm enterprise. Most of the corruption in the IRDP took place because of this subsidy. IRDP beneficiaries are well able to distinguish between a government loan and a microfinance loan because of the manner in which it is given, the interest rate, the relationships which are built with an MFI, or the general insistence on repayment. All of these are very different. In fact, in several Indian languages the English word "loan" is used for a bank loan with government subsidies and not meant to be repaid, while the local Indian language word (for example, in Kannada, it is "sala") is used for a loan from any other source which is meant to be repaid.

So, when you get down to the micro-behavior of a household, they understand this very well. Indeed, remember that there was a loan waiver in 1989 which was one of the government's responses to IRDP default and microfinance grew as a result of that. After that, and since 1991, banks steeply reduced their lending to the poor. So it is quite the contrary. IRDP did not adversely affect microfinance. IRDP and its failure caused the birth of microfinance.

**Q:** In the case of the loan waiver in 1989, did it lead to credit shortage?

**A:** The loan waiver of 1989 caused banks to stop lending to the poor unless a lot of pressure was applied by the government. But within two years, India went in for the reforms in 1991, and the Narasimham Committee

urged banks to focus on profitability. So from 1993, they started worrying about non-performing assets (NPAs). Thus there are a number of reasons, other than the loan waiver, that led to credit shortage as can be seen from the RBI data for small loans – there was a monotonic reduction from 1990 to 2004 in small loans as a proportion of total outstanding.

**Q:** What would you do if you had 60k crores to spend on India's poor farmers?

**A:** I would start looking at why agriculture has become a loss making business – a precarious livelihood. There are four sets of issues that surround Indian agriculture today: first, small landholding size; second, low productivity; third, high variance in yield; and fourth, high variance in prices, particularly for small and marginal farmers. These characteristics call for some remediation. Some of it requires policy changes and some of it requires investment. Most of it requires a combination of both.

We could have used the 60k crores to enhance the viability of small agriculture through investments in land and water conservation; investments in agricultural research and an extension system which is completely broke – particularly for rain-fed areas; investments in much better crop insurance design – like weather-based insurance; and investments in aggregation and warehousing mechanisms for small and marginal farmers so that they also benefit from the commodity derivative market exchanges. All of these require investments and we could have used the money for that rather than a loan waiver which is not helpful for farmers in the long run.

**Q:** Your criticisms are echoed by many in the sector. How do we get to the situation where politicians respond to the crisis in the ways you've mentioned rather than offering loan waivers? What needs to happen at the national level?

**A:** I have had the opportunity to speak with some very senior politicians from various parties, and they all acknowledge that neither loan waivers nor reducing interest rates down to even zero percent will make much of a difference. But, I think that part of their understanding is kept aside when it comes to competitive electoral politics. The problem we've been

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observing is that one will say "I'll waive ten rupees" and another says "I'll waive twenty rupees then." You saw the same game in AP with interest rates. First, Mr. Chandrababu Naidu said "I'll reduce interest rates from 12 to 9%" and then Mr. Rajashekar Reddy said "I'll reduce it from 9 to 3%"

So, one way to handle this is to have a constitutional amendment, which says that government cannot meddle with institutions which take public deposits. However, the government can reserve the right to repay the loans of certain affected categories on their behalf. Repaying the loan on behalf of a distressed farmer is not damaging to the repayment behaviour because then government is reinforcing the norm that loans must be repaid - it's just that the government has stepped into the shoes of the borrower.

**Q:** Could you elaborate a bit more on what you mean when you say that there should be a constitutional amendment which prevents politicians from "interfering" in the affairs of deposit taking institutions?

**A:** If they see that certain borrowers are in distress, government can certainly say "we will repay on your behalf." They are nobody to say "these loans are waived." Only a bank's Board can waive a loan. A loan is a contract between the bank and a borrower.

**Q:** What kind of political obstacles do you envision to this constitutional amendment?

**A:** Initially there will be resistance to the idea. But once they realize that, after the amendment, no politician will be able to offer such waivers to take electoral advantage, they will agree to it.

**Q:** Any other concluding remarks?

**A:** One of the big problems with the loan waiver is that only about a quarter of farmers anyway get loans from banks, the others don't. So the vast majority have loans from informal sources. If we had put a rupee limit per farmer of say Rs 20,000 and say that is valid for all types of loans, formal and informal, then it would have been much more equitable. But that is hard to implement because we don't know how to determine the exact number and amount of an informal loan. So, we should seriously examine some kind of debt swap even for informal sector loans but there is no justification for giving loan waivers of about 20-25k rupees per farmer, all debts added. This will help small farmers much more and, while being equitable, will also

be more popular.

## Supriya Sule

Rajya Sabha MP, National Congress Party

**Q:** Could you start with your overall impressions of the recent loan waiver?

**A:** The waiver is a great start and I am wholly behind it. In fact, this waiver is also in line with the recom-

mendations of the National Commission for Farmers, headed by Professor Swaminathan. We think there will be positive results from this initiative.

As you know, the waiver is for all farmers who own less than five hectares. The loan amount being waived is pretty substantial [Rs. 60,000 crores], and of this, Rs. 10,000 crores will go to those who have been paying regularly. As for those who claim that the waiver doesn't cover all farmers, even the government admits that the benchmark should be increased. Also, some people argue that the waiver distribution is not equitable. However, if you look at certain parts of Maharashtra, an average of 70 to 80 percent of farmers will have their loans waived off [after this policy is implemented].

That said, a lot more needs to be done to help farmers and many other initiatives are underway. Some examples include new soil development programmes, joint efforts between the Irrigation and Agriculture departments to assist farmers in rain-fed areas, and food security programmes.

Many state governments are also taking initiative, which is important because states are typically responsible for the implementation of the various programmes. Let's take the example of drip irrigation, which is being promoted in areas where water is scarce. Andhra Pradesh and Gujarat have done a great job of utilising subsidies and funding available from the Centre to provide much needed relief to their farmers.

This year farmers have produced record amounts of wheat, rice, and pulses, amongst other food grains. But, Low prices have negatively impacted many farmers, and the loan waiver should help some of these struggling farmers.

It's not that farmers just want loan waivers; they need the waiver. If farmers need help to improve their livelihoods, we must help them.

Therefore, we should support farmers through subsidies and other initiatives. Almost three quarters of this country is dependent on agriculture, and farmers are the food suppliers of this country, so how could the Central or State governments ever neglect them?

**Q:** Having worked closely with Self-Help Groups and championed the cause of microfinance in your home state, how do you think this loan package will impact microfinance clients?

**A:** I think this loan waiver will help a lot of

women because in my experience, many women do not get loans because their husbands already owe

people money. With many farmers' loans being written off, their wives will now have the opportunity to start a business. So the loan waiver should also be helpful for these women. Speaking of Self Help Groups, I strongly believe that if they are subsidized for, say, the next five to ten years, this support could equip these women to create market linkages and promote their products in a big way.

**Q:** Moving over to some of the criticisms of this package, many people have claimed that while the package is a significant respite to farmers with formal loans, the vast majority of farmers don't have access to formal loans. How would you react to this criticism?

**Q:** Absolutely, this is big issue that we all care about. However, logistically it is almost impossible to address this problem because the government cannot track transactions without official records. If a farmer takes a loan from an unregistered moneylender at 18 percent, it is very hard for the government to control this transaction. All these sahkars, these moneylenders, they must be brought into this system. This exploitation is simply unacceptable. Figuring out how to remove this exploitation and bring moneylender loans into the formal financial system is an important issue for our country's financial experts to solve, and we must commit ourselves to this goal.

As an alternative to the loan waiver, I would like to bring up the Grameen Bank model from our neighbour Bangladesh. Maybe we could make bank loans into long-term loans by rescheduling them, instead of them writing them off. Again, this is an issue for the experts. But obviously, the Grameen model has worked in Bangladesh.

When looking at this waiver, we must remember what farmers are facing in this country. Farmer suicides give us a lot of pain, and the

government should help. Bottomline, it's very easy for all us to make statements, but it's difficult to resolve the problems our farmers face. I personally don't want to make any promises that I can't deliver. We should be realistic and pragmatic. We need action to see which possible solutions are workable and viable.

**Q:** Some people have argued that the parameters which determine whether or not a farmer benefits from the waiver need to be revisited. For instance, there is the issue of varying soil productivity across regions and whether it should affect the provision of waivers. Would you agree?

**A:** Absolutely, there are specific regions that need the waivers most, such as Bundelkhand and Vidarbha. In Vidarbha, the Agriculture Minister's response to the soil productivity question in the Rajya Sabha reveals that a vast majority of farmers are going to receive the waiver. As the Minister pointed out, in most states like Tamil Nadu and Andhra Pradesh, farmer suicide rates have come down everywhere except in Maharashtra. Suicide rates coming down is a positive step and provides a positive starting point. From my limited personal experience in the field, I believe the only way to solve the farmers' problem would be to totally irrigate our entire country, which would reduce our dependence on the rain.

Also, the loan waiver should not be the only programme to help agriculture; we need do a lot more work to address the growing number of challenges. For instance, I think we need to have debates at the gram panchayat level, and invite experts to speak at these sessions. Challenges related to global warming and climate change are coming to the forefront. It's never been so hot before and our dependence on rain complicates issues. Look what's happened to the paddy in Kerala, Tamil Nadu and Andhra Pradesh. So now, we should not just think about irrigation, we have to think about whether or not the crop variety can survive in such conditions. Increasing our research into the effects of climate change and irrigation would be very beneficial.

**Q:** I really agree that policies have to be realistic and feasible, but you have acknowledged that many things need to be done. What would you have changed, if you had the chance to design this policy all over again?

**A:** Well, I think policy design is best left to the experts, and the experts in the Planning Commission, and Finance and Agriculture Ministry have done a lot of good work. Change doesn't happen overnight and I think we must welcome this step with open arms. **5**

Given the record production of food grains in this country this year, this is one of the happiest, most secure moments for our country and our farming community. Both the farmers and policy experts should be applauded and complimented.

We need to create an environment where our SHG women's products are in every Big Bazaar, in Reliance, and in Spencers. We have the capacity to accomplish this goal, and if the government can help translate this potential into reality in the next five years, SHG group members will be making better wages and paying taxes.

**Q:** You have carved a niche for yourself working with SHGs and women's empowerment, and we would like to know more about your work here.

**A:** I work in Maharashtra, and my work in this area is unrelated to any particular party because it's a development programme in the social sector.

Our main goal is to train SHG group members. We focus on how to invest in various productive activities, how to create better quality products, and more importantly, how to create market linkages. For example, so many of these women are making papad or achaar. However, without the appropriate packaging and marketing, the average consumer would not buy their products. We need to create an environment where our SHG women's products are in every Big Bazaar, in Reliance, and in Spencers. We have the capacity to accomplish this goal, and if the government can help translate this potential into reality in the next five years, SHG group members will be making better wages and paying taxes. And this tax money will go into education, roads, and irrigation projects.

But there are some obstacles to reaching this goal. For instance, the Licchad papad success story inspires many people to make papad. Yet, we need to identify new products like dairy, poultry, masala, etc. The other issue is one of branding; even children, who can't read and write, are able to identify the big brands. We need to help these SHG women compete.

However, at the end of the day, empowerment isn't just about economic growth. Every woman should know her rights, know how to protect herself when being abused, and her children should go to school. And once the woman gets empowered, the entire family will become empowered.

**Q:** Any concluding remarks?

**A:** I am very hopeful and optimistic that this waiver will bring positive results. It's human nature to be apprehensive about new policies, but we should wait until the implementation phase before we start judging. Ultimately, who are all these programmes for? They are for the benefit of our farmers and our country. That said, we need to make sure there is no gap between planning and implementation. Implementation will be hard work, but it's very important to the policy's success. I would also like to reiterate that we should analyze the Grameen model and see what we can learn. We should work together to find solutions to our country's problems, and be optimistic that there is happiness along the road and much more at the end of the road.

## Malcolm Harper

**Q:** What is your overall impression of the loan waiver policy?

**A:** I think the loan waiver is an expensive, populist device that won't have much effect. The government may get votes in the short-term, but I'm not sure the waiver will help them get votes in the long-term. Also, this move will destroy the credit culture, and it's a classic, misguided populist intervention.

**Q:** You mentioned that the loan waiver will likely affect the credit culture. How do you think the loan waiver will affect the microfinance sector at large? Do you think it will lead to a reduction in credit discipline?

**A:** I imagine it would, although I haven't been sufficiently in touch to know whether this is the case. You could argue that in the long-term, the waiver will increase business for MFIs because the banks will be less willing to lend, regardless of priority sector requirements, and therefore MFIs will come up and fill the gap. But as far as people's willingness to repay loans from any source, even though it's not been a loan waiver for MFI loans, I will be most surprised if the waiver doesn't have some negative effects on people's willingness to repay loans from other sources.

I know that the 1989 loan waiver by the BP Singh government, which I think was the last nationwide loan waiver, had a very negative impact on the credit culture. Of course there was hardly any microfinance at that time, but the credit culture took many years to recover. In some ways, perhaps, the country's credit problems in the early 1990's created a vacuum into which microfinance institutions and self-

help groups could enter.

**Q:** There was a recent survey conducted by Outlook magazine that targeted residents living in one of Orissa's poorest districts, Borangir. One of the questions asked was "What is the one thing you want the government to do to radically change your life?", and the options included things like health, infrastructure, and education. Interestingly, the most popular response by far, which 47% of the respondents selected, was that people wanted the government to provide a larger and cheaper loan.

Given your experience working in microfinance across the world, why do you think poorer people in India believe the government should provide access to credit?

**A:** Well, I suppose when somebody asks you about what the government should do, you tend to remember things they have done in the past, and which might have helped or at least been delivered in the past. It's not much good saying the government should provide decent primary schooling or decent primary health care because they know from years of experience that the government has failed on these fronts. And of course the government of India is one of the world's major offenders in that regard.

So you ask for something which you know the government does have. "They have money, so let's ask them for money." Usually, I think responses to that kind of question are inevitably skewed towards what that institution or indeed

The government may get votes in the short-term, but I'm not sure the waiver will help them get votes in the long-term. Also, this move will destroy the credit culture, and it's a classic, misguided populist intervention...

that person, can provide. Accordingly, the responses reported in Outlook magazine could be a product of the fact that since independence, or at least since IRDP, the government has provided subsidized money, which many people benefited from, although of course large numbers of people didn't benefit or even suffered as a result. Ultimately, it's a "more of the same" request. So I wouldn't take that kind of response too seriously in terms of what people really need.

There's no doubt that in the context of SHGs and microfinance in general, some people need access to larger loans. There is one view of microfinance, which I don't wholly subscribe to, which regards it as a wonderful device for keeping people poor by doubling the loans and keeping them in debt, which is highly profitable for lenders or banks – lenders of lenders. I'm

not sure if I'm being too cynical, but micro-finance loans are small, and it's also more or less in their nature that they should be. Everybody receives a similar amount and although they are too small for people who want to do something ambitious, the cost also is not too high to people who want to trade, not too high if it's just a replacement for a moneylender loan, but far too high if you want to grow anything or make anything. The returns on either tiny scale manufacturing, growing paddy or other very small-scale business activities are not sufficient to pay the interest rates charged by most micro-finance institutions. So, those who are trying to start or grow a business, they need larger loans and they need cheaper money.

**Q:** Earlier you said a loan waiver policy is a classic misguided policy. Do you think this policy has any positive impact on distressed farmers who have moneylender debt?

**A:** I was involved in a panel advising the government of India on what to do about farmer suicides. I agreed to be a part of this panel after receiving assurances from the highest level that there would be no loan waiver. So, I was very disappointed when all our recommendations were ignored and they decided to go with a blanket loan waiver which is far more easy to implement and far more expensive, but far less effective.

This loan waiver does not directly address moneylender debt, and I saw somewhere that three quarters of the farmers committing suicides owed money to moneylenders. Therefore, waiving of formal debt is at best an indirect way of addressing this problem. And there have been, in Andhra Pradesh and other places as well, programs which were very cleverly designed to refinance moneylenders' debt. The government didn't try to scale such programs. Instead, they just decided on a blanket waiver for certain classes of poor farmers' formal debt. And in fact, the majority of those committing suicide were not actually small farmers. Ultimately, the loan waiver doesn't address the needs of

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these larger farmers with debts to moneylenders.

**Q:** We had an opportunity to speak with a member of parliament. Her response to our questions about the loan waiver was that the government has to do something realistic, that's doable. If you had a chance to design this loan waiver

policy, what would you have done differently?

**A:** I wouldn't have done a loan waiver policy. As I said, I was involved in a small panel trying to advise the government on how to address growing farmer distress, and without going into too much detail, we suggested a one-time loan settlement. This would have been a type of loan waiver, but not a direct loan waiver, and we also recommended a number of other steps. But it's interesting that you say "doable", because our panel said all recommendations must be "actionable", and there was an implied criticism of the numerous previous reports which basically recommended that everything that hasn't worked in the past be made to work.

The criteria we set for ourselves was that everything that we recommended should be doable, not only doable in principle, but also policy actions that should be done in India right away, and on a large scale. We came up with a range of suggestions under the headings of finance, insurance, lower input costs and social capital, all of which were eminently doable. So, I think my answer to your loan waiver question would be that loan waivers are not the only doable step. Also, I gather, although I'm not so well informed, that while the actual loan waiver may be doable, it lacks clarity around who's eligible, how banks are reimbursed, and so forth. In the end, it's doability is not altogether clear.

**Q:** One of the biggest criticisms of the loan waiver is it only helps people who have access to formal finance. Is there a way to design a waiver policy that would alleviate the distress from moneylender loans?

**A:** It would be very difficult because in the classic governmental hiding-their-head-in-the-sand approach, moneylenders officially do not exist. Therefore, it is very difficult for people to show they have debt from moneylenders. In fact, I have come across numerous cases of people who sign blank-stamped loan agreements because moneylenders are not willing to take the risk of handing out the agreement which could be shown to be illegal, but they still want something they can use to get people to repay the loan.

It's terribly difficult partly because moneylenders officially don't exist. But we did find, again, going back to what we did on this panel, I think it was in Andhra Pradesh, a successful effort under the Velugu project for refinancing, not waiving, moneylender loans with bank loans. Yes, it was through SHGs in AP. This is one of the things we proposed should be expanded nationwide. The program would

be difficult to implement, but it did seem to be doable. What would make the process tricky is moneylenders are quite reasonably not willing to formally acknowledge the fact that they made loans which are illegal under the law.

**Q:** Let's say you had 60,000 crores to spend on improving access to finance for India's poor farmers. How would you spend it?

**A:** That's a lot of money.

**Q:** I think we put you on the spot.

**A:** No, no, fair enough. I think, what I'd do, and this is making all kinds of extraordinary unrealistic assumptions about the quality of delivery channels and the institutions, but I would try to use it to restore PACs [primary agricultural credit societies] to their proper role. I would use the money to get PACs to do more product

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linkage, to do more joint liability group lending to farmers, and generally to play the role that they were originally designed for in 1994, but which has gradually been eroded ever since. I would try to revive the PACs and the whole cooperative credit structure which is there in form, and which has already performed capably in West Bengal and some other parts of India. This role shouldn't be played by MFIs, which have high costs. And it shouldn't really have to be done by commercial banks or even RRBs. So I haven't exactly outlined how I would spend the 60,000 crores but I think that's reviving PACs would be my main focus. And I think the World Bank, with the help of GTZ and others, is looking to improve PACs, and I wish them good luck.

**Q:** Concluding remarks or comments?

**A:** I happened to see some figures from UNICEF last week on child malnutrition in India, and the proportion of Indian children and babies who suffer from malnutrition is much higher than among Bangladeshi children or Pakistani children. And this really demonstrates that for all the talk about India shining and all the money being spent on grossly populist, expensive, and relatively ineffective measures like the IRDP or the loan waiver, India is not really scratching its itches and is not addressing the problems of ineffective delivery channels and poverty in general. It's a rather negative conclusion, but I see the loan waiver as part of the problem that leads to that wretched performance.



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