

NATIONAL WORKSHOP ON MICROFINANCE AND DEBT SWAP FOR POOR

JULY 13, 2004 - CHENNAI

EXECUTIVE SUMMARY

Poverty has many dimensions and stems from several factors – economic, social and cultural. Although lack of opportunities for livelihood (economic) and denial of opportunities (social) are largely seen as a major causal factor for poverty, indebtedness is considered as important manifestation of household poverty in India. Despite a multitude of measures taken in this regard, chronic indebtedness and a structural inability to overcome bondage continues to plague poor households in rural India. Indebtedness has clearly become a way of life but over a certain threshold of debt repayment/income, it prevents families to access basic amenities and has an important disempowering effect on them.

The poor like the proverbial Indian farmer is born with debt, lives with and dies with debt. It is not so much debt per se, but the price paid for the debt, which makes them poorer. The predatory lending practices of indigenous moneylenders charging usurious rate of interest have been perpetuating the legacy of poor's debt bondage. This problem gets accentuated in the Indian context by lack of access to affordable credit and has now been recognised as another significant contributory factor.

Interestingly, Governments and Corporates talk about reducing the debt burden by restructuring through retirement of high cost debts and many corporates/state Governments have already done so. The question now is, who will hold brief for those who need it most.

Microfinance and Debt Swap

Microfinance interventions need to reckon in larger measure usurious debts and the first flushes of micro finance operations are addressing the problems of debt bondage. The interest outgo, being quite exorbitant, gives rise to negative cash flow. Arresting this drain by the micro finance intervention itself is resulting in poor becoming less poor, if not coming out of poverty altogether.

There are quite a few empirical evidences to show that microfinance has been instrumental in bringing about substantial reduction of highly accumulated indebtedness due to usury. These are but a few and the challenge is to enlarge this impact across the wider area covering greater multitude of poor. Little research / study has been done on this issue of over indebtedness of poor families in India.

Thus over indebtedness in India calls for alternative approach that requires substantive innovations and careful experimentation. As a step towards addressing this challenge, INAFI INDIA a network of microfinance practitioner NGOs took the initiative of organising a National Workshop at Chennai in July 13, 2004 and brought together various stakeholders in microfinance – microfinance practitioners, bankers, policy makers for deliberating on this issue and to chalk out suitable action programmes.

The workshop had enriching deliberations on the complex issue with the presentation of the feasibility study for a debt consolidation loan for hardcore families by the Kalanjiam foundation setting the tone. Views and experiences shared by various stakeholders complemented by the group discussions brought out various issues and challenges of the debt swap process from the perspective of demand side (clients), supply stream (commercial banks and financial institutions) and enabling stream (policy making and regulatory bodies)

As a way forward to the debt swap process, the workshop has come out with the following recommendations:

1. High indebtedness is a largely contextualised issue and the process for debt swap begins with clear understanding of the problem and the underlying factors.
2. Dialogue and debate on this issue should be raised to the level of national advocacy for according due importance to this issue in policies being made for poverty reduction
3. The SHG movement is considered as an antidote against usury and the positive experiences so far called for a greater spread of the programme across the country to overcome the regional imbalances of the growth in Northern and Eastern India
4. Promotional cost for the expansion of SHG should come from the mainstream commercial banks and government
5. Product innovations and creating an enabling environment for experimentation with creating convergence between banks and NGOs
6. Demand stream should subscribe a code of conduct whereby they desist from usurious loans and for this to happen value and capacity building efforts by NGOs and institutionalising such mechanisms among the affected clients are necessary
7. Negotiation with moneylenders / informal sources is an important step for an effective debt swap process
8. State has to play an important role in regulating usury and high indebtedness
9. Building social security system by judicious use of subsidies in the present form would be an effective preventive measure by the State as a long term solution
10. Supply stream of commercial banks and other financial institutions to ensure continuous access to credit for the poor with imaginative product delivery system working in concert with demand and enabling stream with high sensitivity to the indebtedness problem
11. Running pilot programmes in select pockets of the country involving banks and NGOs to gain more experience before expanding the debt swap process.
12. Public awareness has to be created with government and political support and campaigns to be launched