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“Development as Freedom” - Amartya Sen’s famous Book, “Grand Reconciliation of Development” has contributed to setting a whole new direction on the basis of which policy can be formulated and this is the primary criterion on which his work in this area needs to be studied and assessed. The concept of 'Development as Freedom' is really a culmination of Sen’s capability approach which he had developed earlier. This line of thinking in development is also manifested in the approach of developing the UN Human Development Index which was for	I believe Amartya Sen’s famous Book, “Grand Reconciliation of Development” has contributed to setting a whole new direction on the basis of which policy can be formulated and this is the primary criterion on which his work in this area needs to be studied and assessed. The concept of 'Development as Freedom' is really a culmination of Sen’s capability approach which he had developed earlier. This line of thinking in development is also manifested in the approach of developing the UN Human Development Index which was for		2013-11-07 08:22:00	development-as-free-dom-amartya-sens-grand-reconciliation-of-development	1	0	publish	blogs	

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He then states that there is empirical evidence to show that there are positive linkages between different types of freedoms and that “they may also serve to complement each other” (Sen 2000, 10).

Another key concept Sen emphasises is “human agency”. He stresses that Individuals have to play a positive role in bringing about the change they wish to see. They should move

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by contrasting
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when economic reforms were introduced in 1979 and India, which met with only limited success when economic reforms were introduced in 1991. According to Sen, China did better because it had better social freedoms at the time of introducing its reforms. China had a more educated and healthy population, which was able to make better use of the reforms as compared to a socially more backward India (Sen 2000, 42). This provides an important guideline for policy.

Second, in the case of poverty, Sen approaches it from a capability deprivation perspective. Addressing the causes of capability poverty can help in the removal of income poverty. Better basic education and health care improve the quality of life directly; they also increase a person's ability to earn an income and be free from income poverty as well. Thus, the capability perspective enhances the understanding of the causes of poverty and helps in its mitigation as well (Sen 2000, 90).

Third, Sen has pointed out that even in developed countries, there can be deprived sections. In the United States, Sen gives figures to show that the mortality rate of Blacks is much higher than those of Whites (Sen 2000, 97). Thus, Sen has given policy formulation a new meaning by applying development concepts to rich countries as well.

It has also been argued that Sen's concept of 'Development as Freedom' is not always explicit at a specific (as opposed

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ization of development as freedom needs to be recognised as a bold new step in the study of development. It brings both practical and ethical considerations into the picture and significantly broadens the understanding of development. It stresses the importance of empowering people and increasing their choices to enable them to have more fulfilling and enriching lives.

From Sen's perspective, the area that CMF is researching may be broadly considered as one that focuses on how to how to remove certain

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Note

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A surveyor engaging a respondent in a behavioral game

2015: The year of 2015 is Digital set to and Financial Inclusion in India? growth and deepening of banking and financial services in India. The Reserve Bank of India and the Union Government, have accorded policy priority to 'Financial Inclusion' through an array of regulatory and policy reforms starting with the Jan Dhan and Jan Suraksha Yojana, the launch of refinancing agency MUDRA, and the entry of differentiated banks into the	2015-10-30 06:36:00	2015-10-30 06:36:00	1	0	publish blogs
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financial ecosystem. These developments reflect a renewed commitment towards reaching India's unbanked and unfunded sections of society and signal a paradigm shift towards a more innovative, technology-enabled approach in addressing last-mile delivery problems. Another noteworthy development this year has been the Union Government's flagship 'Digital India' initiative [1], which seeks to transform India into a digitally empowered knowledge economy. While Digital India's (DI) launch

has created quite a buzz in India and abroad, digitization in its broadest sense is a relatively unexplored area for both policymakers and practitioners in the country. The success of DI rests on the shoulders of two key ingredients: universal access to high-speed mobile and broadband infrastructure. The emergence of 'Digital Financial Services' in India ties these developments in the digital and financial spaces together, and represents a dynamic period of disruption and innovation for the industry.



Source:

<http://www.digitalindia.gov.in/content/about-t-programme>
Taking stock of 'Digital India' There is little doubt that technology is the next frontier for banking and financial services in India, and the focus has now shifted from the 'if' and 'when' , to the 'how' of digital financial services (DFS). While there is enormous potential for the integration of technology and digital systems into the financial services sector, the numbers on key enablers such as mobile internet and bro

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As is evident from the above projections, there is immense untapped potential in India in the mobile internet penetration and digitisation space, for individuals as well as Small and Micro enterprises

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(SMEs).
Statistics from
other sources
tell a
similar
story. A
recent
UNESCO
report,
'The
State of
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[3],
ranked
India
131 out
of 189 countries
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(fixed broadband
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were
ranked
126 and
115, respectively.
In an
interesting
study conducted
by Booz&Co.
in
2012
[4], researcher

s used abroad-based metric for measuring a country's level of Digitization. They used a metric based on a group of proxy indicators on the demand and supply side, and classified them under the following six attributes:

Ubiquity— the extent to which consumers and enterprises have universal access to digital services and applications (Fixed broadband and penetration, mobile phone penetration, 3g mobile connection etc)

Affordability— the extent to which

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Based on this matrix, India falls in the category of 'constrained economies' (with a score of 25). All three sets of data indicate that India is still a long way from bridging the so-called 'digital divide'; the gap between demographics and regions that have access to information and communications technology, and those that have limited or no access. This challenge, however, represents an enormous investment opportunity to service providers and government institutions

such as India Post. With mobile network operators and Technology facilitators having received licenses from the Reserve Bank of India to operate as 'Payments Banks', and the strengthening of strategic partnerships between the Government of India and global technology giants such as Google and Microsoft, investments in expanding last-mile Information & Communication Technology and Telecom are likely to follow suite. In addition to financial institutions and mobile network operators, the Financial T

technology space is thriving with companies such as PayTm, Oxigen, Itzcash, Fino PayTech that offer prepaid payment solutions. With the facilitation of such an enabling business and regulatory environment in India, one can hope that supply-side constraints will not be a major concern in the near future.

Push vs Pull of Digital Finance

There is little doubt that low-income consumers, especially in areas with limited access are likely to benefit from

more accessible and affordable financial services. Given that 85% of India's population has access to a mobile phone (their own or someone else's) and only 0.3% have used mobile money services [5], there is tremendous scope for expansion in this segment. However, how easy is the transition from cash to mobile money and what factors will enable customers from low-income backgrounds to make this transition smoothly? Will the increasing competition in the sector ultimately

benefit the consumers at the grassroots without compromising on their interests and protection?

While it is too early to comment on these developments at this point, it is important to observe and track their progress closely. According to a recent CGAP study, complex user interfaces, consumer fraud, lack of recourse for fraud victims and lack of transparency in fees and other terms of service, are key risk factors for consumers in adopting digital financial services. [6]

Thus, in this case, supply is

unlikely to create its own demand. As highlighted by the Booz&Co. matrix in the previous section, the shift towards a less cash society will need a re-alignment of digital processes and operations with demand-side considerations such as usability, trust in service providers and consumer behaviour.

As India hops onto the Digital Finance bandwagon along with the rest of the developing world, it will be sobering to identify key drivers and barriers to the expansion of DFS, es

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[6] <http://www.cgap.org/publications/doing-digital-finance-right>

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Mudita Tiwari and Deepti Kc (L-R) presenting their findings

The study used ethnographic and experimental approaches to understand the movement of cash transactions, for three types (small, medium and large) of industries in Dharampur. Through the study, behaviors influencing business related financial transactions were observed, penetration of mainstream finance in the study area was mapped, and 200 stakeholders were interviewed to understand their knowledge and perception of electronic transactions. The study was conducted to determine the social,

cultural and commercial factors influencing the decision of using cash versus electronic transaction systems, and understanding the scope of mobile or electronic payments.

Preliminary findings indicate that despite the RBI's acknowledgment that universal access to modern e-payments is critical to ensure financial inclusion, sections of low-income residents in Dharavi face challenges accessing formal finance. Our findings indicate that nearly all enterprise owners have a strong preference for cash because of lack

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and remittance services (via agents) using context specific illustrative graphics that can be read by majority of respondents in our research – migrant workers and women entrepreneurs. The preliminary draft of these illustrative comics was presented at the conference as well.



A sample comic exhibited at the conference

Here is the presentation :

(Note: IMTFI was established in 2008, with its mission to support research pertaining to technological advances impacting the financial lives of the

world's poorest people. IMTFI is housed in the School of Social Sciences at the University of California, Irvine, and is currently headed by Dr. Bill Mauer.)

A better harvest for Indian farmers – just a phone call away?	Author: Tanaya Devi	2012-04a-better1-09 14:5-harvest-for-indian-farmers-just-a-phone-call-away	0	publish blogs
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A new CMF study explores the potential of a new mobile agricultural extension service to improve farming techniques.

The Indian government has will ingly implem ented a gricultu ral dem onstrati ons as a method to deve lop farming knowle dge and tec hnique

s. It spent \$60 million on agricultural extension in 2009-10 alone. However, these traditional extension techniques seem barely able to deliver, as only 5.7% of a 270 million strong farming population report access to information delivered by these extension services (59th National Sample Survey).

The alarmingly low usage of traditional agricultural extension does not come as a huge surprise if one delves into its logistics. Having government w

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to hundreds of millions of smallholder farmers. To test the impact of delivering information using cell-phones, the Avaaj Otalo(AO)
) project takes help from an open-source, voice-based platform, Avaaj Otalo, and analyses its effect on farmers' sources of information, their agricultural knowledge and their pesticide usage decisions. Avaaj Otalo's technology is provided by Awaaz.De, a company developing information services that connect and engage

rural, marginal, and underserved communities around the world.

The project, a randomized controlled trial led by Shawn Cole of Harvard Business School and Nilesh Fernando of Harvard Kennedy School, is currently being conducted in two districts of Gujarat with 1200 farmers. In the study, one group of farmers receives traditional extension and mobile-based extension, another group receives just mobile-based extension and a third group receives no advice.

To participate in the study, farmers had to meet the following criteria : (a) be the chief agricultural decision maker in the household; (b) own or have regular access to a mobile phone; and (c) grow cotton.

Participants in the mobile-extension groups receive push calls every week that broadcast season-specific agricultural information. Farmers can also dial into a hotline and ask their own questions that are answered by the project's resident agricultural consultant (if they

belong to the study group), or by external consultants working with the Development Support Centre, an NGO that implements AO across Gujarat.

A midline evaluation of this intervention reveals that in the first four months of the service, approximately half of the treatment farmers called in to listen to information on the AO platform. There has been an increase in the number of treatment farmers who cite AO as their main source of information in making input-

related
decisions. Another encouraging result lies in pesticide usage and purchase data of the treatment and control farmers. Based on data from the first round of phone survey, one finds that the treatment farmers are making a conspicuous shift away from environmentally harmful and less effective pesticides to ones that are less harmful and more effective against the most dominant category of pests i.e. sucking pests.


Although there is still much to learn

from the analysis and results of the current survey, this project has already started showing signs of enriching our view about technology-based knowledge dissemination. The project has the potential to go much beyond the purview of agriculture and have positive effects on farmers' health status as they switch to pesticides which pose lesser health risks.

If this technology proves effective, scaling the project to include the entire farming population of India

seems to be the right way forward. In fact, this open-source service could easily and cheaply be adapted to many other developing country settings, especially in Sub-Saharan Africa where rapidly growing mobile phone networks have presented a unique opportunity to revolutionize information delivery in agriculture.

A conversation on development with Kaushik Basu – Part 2



Parikshit Ghosh (Associate Professor of Economics, Delhi School of Economics) speaks with Kaushik Basu (Chief Economist and Senior Vice Pr

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public
service
deliver
y, to
the
need
for plur
alism
and tol
erance
for eco
nomic
growth,
and the
importa
nce of
commu
nicatin
g good
ideas ef
fectivel
y to pol
icymak
ers and
the
general

This int
erview
is part
of [I4LC
onvers
ations](#)
series
by
Ideas
for
India.

Parikshi
t Ghosh
(P
G): *The
Plannin
g Comm*

*ission,
the
renamed
NITI
Aayog,
is
perhaps
going
through
a bit of
an
identity
crisis. It
was
largely a
body to
channel
resource
s, to
plan inv
estments
and so
on. One
of the
new
roles
being
talked
about is
maybe
an
advisory
or consu
ltancy
role. Is it
right to
infer
that the
World
Bank is
also
moving
in the
same dir
ection?*

**Kaushi
k Basu
(KB):
The
World
Bank
has
been
doing
that for
a long
time.
We co
mbine
lending
with kn
owledg
e and a
dvisory
activity.
I feel
that is
going
to be
even
more pr
ominen**

t once
the
New De
velopm
ent
Bank
and
Asian I
nfrastr
ucture I
nvestm
ent
Bank
(AIIB)
come
into exi
stence.
They
will
very
easily
cut into
the
lending
activity,
but the
World
Bank
will con
tinue to
have its
strengt
h in kn
owledg
e and a
dvisory
capabili
ty.
When I
was
Chief E
conomi
c
Adviser
in
India, I
wanted
to
know
the
details
about
the con
ditional
cash tr
ansfers
in
Brazil
and
other
Latin A
merica
n count
ries
where
there
has
been a
lot of s
uccess.
The
easiest
way to
do this

was to
call up
the
World
Bank
office
and ask
for it be
cause it
had
ready r
esearc
h mater
ial on
this.

People
who
are not
in the k
nowled
ge busi
ness
very
often
do not
realise
the imp
ortance
of this
kind of
informa
tion. I
would
like the
govern
ment to
underst
and
that the
econo
my is e
xtremel
y comp
lex. Ec
onomis
ts do
not und
erstand
masses
of it,
but
they un
derstan
d little
bits,
and
you
must
make
use of
that.
One
very
good e
xample
from
India is
the 3G
spectru
m aucti
on. In

the Ministry of Finance, with others, we estimated that the spectrum is going to be worth a certain number of billion dollars. But I kept arguing that we should get an auction going to discover its value more effectively. Luckily, the Government of India did a very good auction and what was earned was three times what we had, sitting in the Ministry, estimated. So if we had sold it on the market, we would have given it up at a throwaway price, because we did not understand the value.

Auction in economics is a bit like an engineering skill. It is very difficult for a politician to understand that a well-designed auction is like a well-designed bridge. Yes, this is the sort of thing the World Bank tries to be more and more engaged with.

PG:
You talked about the importance of good ideas and policy design. In the last election, governance was a big word. The Prime Minister has at some points made statements to imply that it is not so important what exactly government

does
but that
it's
done
well.
What
do you
think of
this phi
losoph
y that
instead
of
novel
ideas
or
policy i
nnovati
ons,
what is
importa
nt is to
have an
energet
ic gove
rnment
that
actually
goes
out and
does
things?
Is this
stress
on gov
ernanc
e a bit e
xcessiv
e and is
policy
being u
ndermi
ned in
the
current
thinkin
g?

KB: I
feel
there is
a lot to
be said
in
favour
of the
point
that the
present
govern
ment is
making
. Just
being
more ef
fective
is extre
mely im
portant.
You
want to
carry

out
things
as effici
ently as
possibl
e, as
quickly
as poss
ible,
with as
little co
rruptio
n as po
ssible.

But you
can do
things
better if
you do
it imagi
natively
, if you
innovat
e. The
next
World
Develo
pment
Report
is on g
overna
nce
and the
law, pre
cisely b
ecause
we
believe
that
there is
more to
govern
ance
than
just
doing
things
energet
ically.
How eff
ective
is the
law for
controll
ing corr
uption?
How do
decisio
ns go t
hrough
the gov
ernmen
t - thro
ugh a p
yramidi
cal stru
cture or
throug
h a flat
structu
re? I

will
give
you
one
little ex
ample
of how
research
h
matters
for gov
ernanc
e. This
is the
work
done
by
Raghab
Chatto
padhya
y and
Esther
Duflo,
which
found
that bri
nging
women
leaders
in
actually
makes
a differ
ence to
the pro
vision
of
public
goods
(water,
service
s), at
least in
Bengal
and Raj
asthan.
There
is a lot
of kno
wledge
on gov
ernanc
e which
we
need to
bring
into our
discour
se.

PG: *Let
me
come
to cash
transfer
s. As
the
Chief E
conomi
c Advis
er, you
were ad
vocatin
g cash*

transfer
s in
food su
bsidy.
The
current
govern
ment
has
done it
for the l
iquefie
d petrol
eum
gas
(LPG) s
ubsidy.
Would
you
support
a very
strong,
across-
the-
board
case
for
cash
transfer
- conve
rting su
bsidies,
price s
upport,
everyth
ing into
cash tr
ansfer?
Or
would
you say
that in
the
current
Indian
conditi
on we
have to
be sele
ctive
and ca
utious?
The
critics
talk
about
things
like
people
not
having
bank ac
counts,
large e
xclusio
n
errors,
lack of i
nflation
indexin
g and
so on.

KB: My

view is
that we
have to
use a c
ombina
tion.
We
tend to
err on
the
side of
trying
to
deliver
too
many
things
to the d
oorstep
. The c
orrectio
n that
has to
take
place is
more
cash tr
ansfers
in
India.
There
are lots
of
people
who
are
capable
of
making
good d
ecision
s once
they
have
the
cash in
hand. I
would
not
have
minded
everyth
ing
being
done
as in-
kind
transfer
if we
had a
system
for
doing
that or
if
people
already
had the
values
so that
they
don't
cheat
on the

way.
But we
do not
have
those
values.
May be
one
day we
will, but
that is
a
10-year
agenda
. Mean
while,
you
have to
use
cash tr
ansfers
to get
rid of a
lot of
very cu
mbersome
gov
ernmen
t burea
ucracy,
corrupt
ion and
leakage
.

Food is
one
area
where I
think
we can
change
over
vastly
more to
cash tr
ansfers
. There
would
be
some r
egions,
some
very
poor po
ckets
where
you
need to
take
the
food to
the doo
rstep. E
lsewher
e give
people
the
cash
for
them to
buy
food.
Over

40% of the food is leaking out under the PDS. It is too big a waste and by using cash transfers we will be able to plug quite a bit of this, I believe.

On the other hand this does not mean everything should be given over to cash transfers. Take health services for instance. Government should provide health care - you have to have doctors and nurses in the payroll of the government. In India what happens is that this debate is very ideologically split. Some people would go the

old Chicago School route - give cash and stay out of government altogether. I do not buy that. Some people would try to take everything up to the doorkstep, where the leakage would be huge. I do not buy that either. You have to use a combination, intelligently.

PG
: *One problem with public health and education in India is that we do not invest enough as percentage of Gross Domestic Product (GDP). But another thing, which has emerged of late, is the problem of*

quality.
Even
given
what
we
spend,
the
quality
of
public
service
delivery is abysmal.
Annual
Status
of Education
Report
(ASER),
for example,
shows
that enrollment
is high
but learning outcomes
are
terrible.
You
want
the government
to
play a
big role
in
health
and education
, but
there is
this chronic, persistent
problem that
the government
is not
doing
its job
well.
What is
the solution?

KB: It
is a
deep,
difficult
problem. It
has something
to do
with
values.
That
will
also
take

some
time
but we
will
have to
try to u
ndersta
nd this
and
convey
this. At
the
Delhi
School
of Econ
omics,
where
you
teach
and I
taught
for
many
years,
there is
no mon
itoring
of whet
her you
teach,
whethe
r you
take off
for a ho
liday,
play
truant.
But virt
ually ev
eryone
teaches
becaus
e this is
the hon
ourable
thing to
do.
Human
beings
are perf
ectly
capable
of carry
ing out
their
tasks if
they
take
pride in
their
work
even if
there
are no r
ewards
or pena
lties.

I feel
for inst
ance
that
much
more

than
shoring
up incomes of
the
police,
shoring
up their
pride in
the
task
that
they do
is important so
that
they
feel
good
and honourable
when
they
walk up
to
break
up a
fight,
instead
of
going
there in
a predatory
manner. It
sounds
a bit preachy
but
right
from
the top
if you
teach
people
to take
honour
and
pride in
the
work
that
they
are
doing,
they do
it much
better. Fortunately, in
India
you
can see
this in
the military. I
do not
have an
easy solution,
but thinking
entirely
in econ

omistic
terms,
giving
more in
centive
s and
more
money
alone,
will not
be able
to
solve
this pro
blem.
You
have
to, in
the
long
run,
work
on
giving
people
the
right
values
and
this is
possibl
e.

PG:
*Since
you left
as the
Chief E
conomi
c Advis
er,
there
was a
big poli
tical ch
ange;
the new
Bharati
ya
Janta
Party
(BJP) g
overnm
ent has
come
in. I
think it
is fair
to say
that de
velopm
ent was
the
chief
selling
point;
there
was a p
romise
of econ
omic re
juvenat
ion. Lo
oking*

at the overall direction in the last two years, do you see a major change in economic policy or is it largely the same course?

KB: I think economic policy wise it is largely the same — which is not bad at all. Because what the last government was trying to do was very reasonable, except it was not very effective in the last years. Broadly it is the same kind of agenda now. This government is pushing for a few other things such as the ease of doing business, though there

are
also
many i
mporta
nt
things
that are
stalled.
It is
good
that the
govern
ment is
pursuin
g
roughly
in the
same di
rection.

PG:
*There
has
also
been a
lot of
talk
about n
on-eco
nomic
social
and
cultural
issues
especia
lly the c
ontrove
rsy
over
'rising
intolera
nce'.
The Fin
ance Mi
nister
made a
statem
ent that
these c
ontrove
rsies
are
hurting
growth
prospe
cts for
India.
This
brings
up the
questio
n of wh
ether e
conomi
c
growth
needs a
pluralis
tic and
liberal
society,
where
free
speech*

*and
other
rights
are protected.
We see
in
history
examples of societies
which
were
illiberal
in a lot
of ways
- Germany in
the
1930s,
modern
China,
Pinochet's
Chile –
but still
achieved economic
success.*

KB: I strongly believe in the importance of pluralism and the tolerance of ideas. So we must be inclusive, embracing diverse castes, religions, races and also sexual orientation. Yes, there are authoritarian societies which have done very well. China and North Korea both

had authoritarian control in the 1960s, but one did very good economically and the other did disastrously. With authoritarian control, it can go either way. If you are lucky to have in power a person or a small group that is far sighted, you can do phenomenally well like China or Singapore. But the world is also replete with disasters created by authoritarian control with no system of replacing those in power when things go wrong. So the divergence of performance for authoritarian

oritaria
n regim
es is
bigger;
the
spread
for dem
ocratic
regime
s and p
luralisti
c societ
ies is n
arrower
and ge
nerally
good -
and I
would
go for
that.

But
society
also
ought
to be
tolerant
becaus
e it is
too
small a
world
that we
share.
We all
have co
mmon
genetic
roots;
we all
came
out of
Africa
80,000
years
ago. To
be a
tolerant
society
is impo
rtant
and an
end in
itself.
As I
praise
this go
vernme
nt for
some
moves
it has
made
on the
econo
mic
front, at
the gra
ssroots
level
there
seems
to be a

rise of intolerance.
You see this reflected in the social media, in the way people are writing or trolling.

I would urge the leaders of the government to speak out against this. It goes against the ideals of Gandhi, Nehru and Tagore and is bad for the economy as well. A pluralistic society where people feel they are a part of society develops better because people take pride in what they do. In the United States, though there is still discrimination, on the whole, people who

come
in
begin
to very
quickly
feel
that
they
are a
part of
society.
This
has co
ntribute
d to its
succes
s. I
would
ask the
leaders
to
speak
up
more
for
these
basic
human
values.

PG
: *Your
new
book
has
come
out -
'An Ec
onomis
t in the
Real
World'.
As an a
cademi
c econ
omist,
what
are the
major
lessons
that
you
have
learnt
going
into the
policy
world?*

KB: For
me, the
six
years
spent
in the
policy
world
have
been
full of l
earning
. When
you
come

to this
job you
realise
that
having
a very
good
idea is
pointle
ss
unless
you are
able to
convey
it and
have
people
underst
and it.
There
are two
levels
of unde
rstandi
ng. One
is that
you
have to
have
the min
isters
and me
mbers
of parli
ament
underst
and
and I
tried to
do
some
of that.
Numbe
r two is
the co
mmuni
cation
with
the
larger
world.
A lot of
policy r
esistan
ce has
to do
with pe
ople's
misund
erstand
ing of
things.
If you p
ropose
taxing
large in
comes
in agric
ulture,
it will
be dres
sed up
as an
attack

on agricultural
culture
itself,
not realising
that
only
1% of
the agricultural
sector
is
going
to be
taxed.
Likewise,
you
cannot
move
on the
environmental
challenges
that we
face
today
unless
you get
people
to
realise
that it
is
being
done in
their collective
interest
.

Vested
interests
are important
but
ideas
are
also important.
Earlier,
when I
read
Keynes
stressing this,
I would
feel
that it
is the perspective
of a professor
who dealt in
ideas.
But
when I
stopped being
a professor
and
went

into government, I realised the biggest stumbling block is that people have set ideas - this is the way an auction should be done, this is the way you should give out a road contract to a private sector entity. If people are set in their ways, it is very difficult to break this status quo. All these things are discussed at length in my book.

This is the second of a two-part interview. The [first part](#) of the interview focuses on global issues ranging from ranging from the

*change
in
World
Bank's
mission
and
its engagement
with
the
world,
rising inequality
in
the developed
world,
managing the
negative side
effects
of
growth,
to the
role of
behavioral economics
and
paternalism in
development,
and the
exclusionary
nature
of the ongoing
digital revolution.*

Also

[Big and small
ideas in
development
economics:
Theory,
evidence
and practice](#)
Karthik
Muralidharan
in conversation
with
Kaushik Basu

A conv ersatio n on de velopm ent with Ka ushik Basu- Part 1	Pariksh it Ghosh (Associ ate Prof essor of Econ omics, Delhi School of Econ omics) speaks with Ka ushik Basu (Chief Econo mist and Senior Vice Pr esident , World Bank and former Chief E conomi c Advis er, Gov ernmen t of India) on issues ranging from the change in World Bank's missio n and its eng ageme nt with the world, rising i nequali ty in the dev eloped world, managi ng the negativ e side effects of growth, to the role of behavi oural e conomi cs and paterna lism in develo pment,	2016-02a-conv 1 -04 08:0 7:00	0	publish blogs
		n-on-de velopm ent-wit h-kaus hik-bas u-part-1		

*and the
exclusi
onary
nature
of the o
ngoing
digital r
evoluti
on.
This int
erview
is part
of [I4I C
onvers
ations](#)
series
by
Ideas
for
India.*



*Pariksh
it
Ghosh
(P
G):
When
the
World
Bank
was fou
nded, it
was out
of a*

sense
of inter
nationa
l econo
mic co
operati
on and
perhap
s there
was a
feeling
that the
develo
pment
of poor
countri
es coin
cided
with
the
interest
of
richer c
ountrie
s. But
of late,
there
has
been a
lot of h
earthbur
n about
things
like out
sourcin
g, immi
gration,
and
equity
issues
surrou
nding
climate
change
talks.
Do you
see a
rift dev
eloping
betwee
n the
North
and
South?
And if
that is
so,
what
does it
imply
for the
World
Bank's
missio
n and
how
does
the
Bank
plan to
handle
it?

Kaushi

k Basu
(KB): I
don't
see a
new rift
develo
ping be
tween i
ndustri
alised c
ountrie
s and e
mergin
g econ
omies.
There
have
always
been
some
lines of
tension
betwee
n the
two,
which
shift oc
casiona
lly from
one
area to
another
. We
are
today
much
more s
ensitive
to the
climate
conseq
uences
of what
we do
and the
refore
some
of the
tension
is
around
climate
change
issues.
Historic
ally, ten
sions
have de
velope
d over
World
Trade
Organiz
ation
(WTO)
negotia
tions or
when
the Inte
rnation
al
Labour
Organiz
ation

(ILO) tried to bring in core labour standards common to the world. I myself had written how one labour standard for the world means very little. If you set this at a level reasonable for developing economies, it would be meaningless for high-income countries; and if you set it at a level where it has some bite for high-income countries, it would destroy the labour market in most developing countries.

What is interesting is that the World Bank's engagement with the world has undergone

e a
change
compar
ed with
the
time of
its foun
ding
just
after
World
War II.
And in
recent
times
the
arrival
of the
new
banks -
Asian I
nfrastr
ucture I
nvestm
ent
Bank
(AIIB),
Brazil
Russia
India
China
and
South
Africa (
BRICS)
Bank or
the
New De
velopm
ent
Bank –
is causi
ng
some
shift in
the
nature
of the
World
Bank's
missio
n.

PG
: *How
exactly
is the
Bank's
missio
n chan
ging?*

KB:
One
very int
erestin
g
change
is a
return
to reco
nstructi
on
work.

This was the World Bank's original mission after the devastation of World War II, though ending poverty became the goal subsequently and still is. What has happened over the last few years is that once again there is talk of reconstruction type work because of the major political disruptions. Some countries in South Asia and the Middle East, which are not really as poor as the sub-Saharan African countries, are reeling under a refugee problem that is a bit like the aftermath of a major war. One

piece
of data
which
is
striking
is that
the average
refugee
in the
world
now remains a
refugee
for 17
years.
That immediately
changes
your
nature
of engagement
with
these
people.
It is not
just
about providing
them
food
and
letting
them
survive
from
one
day to
another
. They
need education,
they
need
health,
and
they
need
jobs -
so that
they
are not
damaged
human
beings
after 17
years.

There
has
been
another
broad
change
in the
World
Bank's
engagement
with
the

world after I joined the Bank and was asked to help set up a few mission goals. In addition to fighting absolute poverty, we decided to add another goal, which we call promoting shared prosperity. Basically, it is attending to inequality, by focusing on the growth rate of the bottom 40% vis-à-vis the rest. The World Bank is very comfortable with this now, but when I started this discussion at the end of 2012, there was a lot of resistance, with some arguing that this entailed being nosy

about rich countries as well. Scandinavian and Nordic countries were happy but there were others who were not so happy. We did not have the data capacity and had to get Organisation for Economic Co-operation and Development (OECD) to help us. As an international organisation, focusing on inequality was very new.

PG
: *There is a dramatic increase in inequality in the developed world; we are back to the pre-Depression era. This is getting a lot of publicity and people are inv*

oking
various
factors
includi
ng
trade, t
echnol
ogy, gl
obalisa
tion, rig
htward
shift of
politics
and so
on. If
you
were to
put
your
finger
on the
most i
mporta
nt
cause,
what
would
be your
diagno
sis?

KB: Te
chnolo
gy -
and
two par
ticular
kinds
of tech
nologic
al chan
ge. One
is just t
echnol
ogical i
nnovati
on whe
reby
you
can do
with
less
labour.
Numbe
r two,
is tech
nology
which
links
labour
in differ
ent
parts of
the
world. I
called
this lab
our-
linking
technol
ogy.
This, it
turns
out, is

good
for
those
poor co
untries
which
are well
enough
organis
ed to
take ad
vantag
e of
these
new op
portuni
ties.

If you
look at
the last
30
years,
the
wage
bill in
rich co
untries
is beco
ming a
smaller
share
of the
gross d
omesti
c
product
(GDP)
at a
rate
that is
quite re
markab
le. You
cannot
continu
e at
this
rate
without
groups
of work
ers
being d
ecimate
d.
Robot
sales
last
year
were a
record
number
, and
then
there is
outsour
cing of
work.
You
cannot
grudge
the out
sourcin

g.
These
are
even
poorer
people
who
have
the
skill,
who
earlier
needed
an imm
igration
visa,
and
now
don't.
They
can sit
where
they
are and
begin
to link
up with
the
world.
But all
this is
holding
back
the inc
omes
of the
poorer
people
of the
rich co
untries
and pu
shing
up the i
ncome
s of
more
skilled
people
in the
poorer
countri
es.
Many
other
things
are hap
penin
g, but I
think
this is
playing
a major
role in
driving
up ineq
uality.

People
are
also
earning
a larger
and

larger
share
of their
income
from
bits
and
pieces
of
paper
they
own - a
patent
that
you
have, a
share
that
you
hold. I
think
all this
is
feeding
into inc
reasing
inequal
ity. To
me,
this is
no indi
vidual'
s fault,
but it
will be
our
fault if
we do
not res
pond to
this
global
trend.
There
is a
need
for very
major r
ethinki
ng of
the sou
rces of
income
for
people:
you
may
want to
have
some
equity
or
share
in
stocks
being d
istribut
ed to w
orkers.
Make a
thought
experi
ment: if
someo

ne disc
overs a
robotic
machin
e that
can
create
other
robotic
machin
es,
then
one
person
will
have
the
right to
virtuall
y every
thing
being p
roduce
d in the
world.
Should
we
really
risk
getting
into a p
redica
ment
like
that?

PG
: *One
aspect
of ineq
uality is
inclusiv
e
growth
— how
to
make
growth
accessi
ble to
the
bottom
40% or
20%.
But it
seems,
in
India,
there
are
some n
egative
side
effects
of
growth.
Exempl
es
include
the
land ac
quisitio
n probl
em or*

air pollution - which is now becoming a political issue. The Left is often critical of the development model that institutions like the World Bank or IMF have been pursuing. How do we manage growth without these negative side effects?

KB: I think the nature of growth has to change. If we continue in the same way, we are going down a path which is not good for all of us. But you cannot hold back developing countries, which are still abysmally poor. What we need is

to think
of
growth
differen
tly. We
typicall
y think
of
growth
as
more of
everyth
ing. But
growth
can
involve
breakth
roughs
in
medical
researc
h.
Instead
of
eating
more
food
and bui
lding
fancier
houses
, if we
can
make d
ramatic
improv
ements
in our
health,
the
value
of that
can be
huge.
This
will be
growth
which
is not d
amagin
g to the
environ
ment
but
leads
to
better
lives.
There
too you
can get
some
new ch
allenge
s. If
you get
a
medical
breakth
rough,
which
is so ex
pensive
that

only a thousand people can get it, it will increase inequality. The basic point is if we are to survive climate change and other challenges, you do not want to slow down growth but change the nature of what it is that we are consuming and what constitutes a better life.

PG
: *The latest World Development Report puts a lot of emphasis on behavioural biases. In the 50s, the main bottleneck for development was thought to be resources and investment, and the Bank's role as a*

*funding
agency
was cut
out.
Then
came
the
idea
that ins
titution
al and
market
failures
are
very im
portant.
Now
you are
empha
sising
these b
ehavio
ural
biases.
Maybe
people
do not
have
the
right
goals
and
values;
maybe
some
moral s
uasion
has to
take
place.
What is
the
Bank's
role
here?
How
can it
help?*

KB
: This, I
feel
rather
good
about.
This is
the first
World
Develo
pment
Report
that
was co
mmissi
oned
under
my
charge
and I
chose
this
topic,
and we
decide

d to
call it
'Mind,
society
and be
haviour
' . Intro
ducing
this
topic
was
again
markin
g a bit
of a
shift in
the
World
Bank's
engage
ment. F
ortunat
ely we
had
very
good
people
there
like
Karla
Hoff
and
Varun
Gauri,
who
have
done in
terestin
g work
in this
area.

This is
an extr
emely i
mporta
nt topic
and I
had
written
about it
earlier
from a t
heoreti
cal per
spectiv
e.
Some s
tandard
axioms
of econ
omics
are sati
sfied
by rats,
but rats
do not
trade
and exc
hange
becaus
e they
do not
have

some common underlying values and customs that are needed. In economics we never write them down because we take them for granted. For example, a common language or a modicum of trust is essential for a society to function. There are a number of exchanges and trades we do without bringing in the cops, without signing of contract, just because we trust one another. In societies where you don't have that you cannot perform these functions. The World Development Report

tries to
bring
these
into the
mainstr
eam of
develo
pment.

When
the
private
sector
tries to
sell a p
roduct,
it is not
just
about
making
the
product
as nice
and
cheap
as poss
ible.

Where
it is
placed
in the
shop wi
ndow,
next to
what
product
with
what
price
tag -
those
things
play on
human
psycho
logy.

The
private
sector
uses
this kn
owledg
e of the
human
mind
set all
the
time,
but the
develo
pment
sector
seldom
used it.

And
that
was my
aim
with
this
World
Develo
pment
Report.

Our latest World Development Report called Digital Dividends, which we launched in January, is also one I am very proud of. Its main premise is that while the internet, mobile phones and other digital technologies are spreading rapidly throughout the developing world, the anticipated digital dividends of higher growth, more jobs, and better public services have fallen short of expectations; and nearly half the world's adult population remains excluded from the ever-expanding

digital
econo
my.

The
digital r
evoluti
on is tr
ansfor
ming
the
world,
aiding i
nformat
ion
flows,
and fac
ilitating
the rise
of deve
loping
nations
. This is
wonder
ful
news
and we
must e
mbrace
this rev
olution
with
open
arms.
But
while
these a
chieve
ments
are to
be cele
brated,
this is
also oc
casion
to be
mindful
that we
do not
create
a new u
ndercla
ss.
With
over
15% of
the
world'
s popul
ation
unable
to read
and
write,
the
spread
of
digital t
echnol
ogies
alone is
unlikely
to spell
the end

of the
global
knowle
dge
divide.

PG: *For
the
World
Bank, p
rovidin
g funds
is strai
ghtforw
ard.
But
now
you are
talking
of som
ething
which
will
require
more in
trusive,
maybe
more p
aternali
stic int
ervention.
Isn't
that a p
olitical
minefie
ld?*

KB
:
Indeed,
one crit
icism
that we
got in
the beg
inning
was
that
you are
taking
World
Bank
into pat
ernalis
m. But
for me,
as
soon
as I
know
that thr
ough
one par
ticular
action
of
mine, I
will
make
you
choose
'a',
and by

not
taking
that
action
you will
choose
'b', I
cannot
escape
paterna
lism an
ymore,
becaus
e I
know
that if I
do
nothing
I am pr
omptin
g you
to
choose
'b'. I
feel
that
given
the
amount
of kno
wledge
that we
have
today
of
human
psycho
logy, p
aternali
sm is in
escapa
ble. It is
best to
confron
t it and
do it as
morally
correctl
y as po
ssible.

There
are two
differen
t kinds
of pater
nalism.
One is
where I
insist
that,
like it
or not,
you
have to
fasten
your
seat
belt.
There
are
cases
in life
where

we do
that.
But
there
are
other
forms
of pater
nalism,
where
we
place s
omethi
ng in
front
you,
present
it in a
certain
way;
for exa
mple,
when I
am
trying
to pers
uade
you to
take
your m
edicine
regularl
y. That
is
another
kind of
paterna
lism
where
you
have
the free
dom to
reject,
but I
am
using
my kno
wledge
of how
you
think.

PG: *I re
cently
read
your
new
proof
of the P
ythagor
as theo
rem. So
after da
bbling
in the
messy
real
world,
was
that a
bit of a
welcom
e diver*

sion?!

KB: It was sheer pleasure working on this. Arunava Sen got me interested in this. It is from him that I learnt that the 20th President of United States, James Garfield, had developed his own proof of this ancient theorem. Geometry has been a pet subject of mine. As it happens, this is the only subject that my father taught me. Quite remarkably, he did this when he was Speaker of the West Bengal Assembly. Clearly he also relished the subject. After Arunava told me, I

read up
Garfield
d's
proof,
which
was published
in a
New England
journal.
Then I
began
playing
around,
looking
for yet
another
way of
proving
the the
orem;
and to
my
delight
I found
this
proof
via a property
of isosceles triangles.
This is
of
course
nothing
but recreational
maths
- an intelligent
school
kid
could
do it,
but for
me it
was
fun.
And I
feel vindicated
having
spent
time on
this,
since
the
paper
is now
coming
out in American
Mathematical
Association's
College
Mathematics
Journal
. Now I

have to
tell you
- I have
another
project.
About
50-60
years
before
Pythag
oras,
there
was
Thales
of
Miletus,
who
proved
a theor
em
about tr
iangles
and
circles.
Over w
eekend
s, I
have
been d
abbling
in
Thales'
work,
so
maybe I
will be
able to
go a bit
further
back
into
history
than Py
thagora
s!

The
second
and
final
part of
the inte
rview f
ocuses
on Indi
a-speci
fic
issues
ranging
from
the use
of econ
omic k
nowled
ge in
policy
decisio
ns, role
of
values
in
public
service
deliver

y, to
the
need
for plur
alism
and tol
erance
for eco
nomic
growth,
and the
importa
nce of
commu
nicatin
g good
ideas ef
fectivel
y to pol
icymak
ers and
the
general
public:

Also

[Big and
small
ideas in
develo
pment
econo
mics:
Theory,
evidenc
e and p
ractice](#)

Karthik
Muralid
haran
in conv
ersatio
n with
Kaushi
k Basu

A day
in the
life of a
tribal
village
market I am
(Haat)...quite
!
sure
most of
you
have
seen or
know
of a
village
haat or
bazaar.
Ever
wonder

2013-02a-day-i 1
-26 09:2n-the-lif
4:00 e-of-a-t
ribal-vil
lage-m
arket-
haat

0

publish blogs

what
exactly
happen
s out
there?

(In case
if you
are not
aware of
what a
village
haat is-
as most
interior
villages
of rural
India do
not have
proper
linkage
to the
market,
many
Indian
villages
– especi
ally the
ones
that are
well con
nected
with
small
cities-
host a
business
center,
which is
open
only
once a
week in
Govern
ment
owned
lands)

This par
ticular
haat is
hosted
in one of
the deve
loped
villages
of
Bastar
district
of Chatt
isgarh,
which is
around
30 km
away
from a
small
town- Ja
gdalpur.

Localities mentioned that 1000s of visitors from around 40-50 interior villages within a radius of 40 km visit this haat every week to purchase or sell all types of goods ranging from daily needs items such as vegetables, salt, sugar, spices, rice to clothes, jewelry, toys etc.





Do you
know
that
each
place is
allotted
to a par
ticular
enterpri
se? A
local
boy
told me
to bring
a stick
and
place it
on any
empty
space,
and
that
space
would
be
mine.

This
man in
the

picture
below
(on the
right) m
entione
d that
the
place
was
allotted
to his
family
40
years
ago,
when
his
father
first oc
cupied
that
place.
He has
a clothi
ng busi
ness
and
comes
from a
city,
which
is
around
30 km
away
from
the
place.



Needle
ss to
say, ba
ngles
are extr
emely i
mporta
nt for
Indian
women.

One in
terestin
g obser
vation
was
that
women
buyers
did not
wear ba
ngles t
hemsel
ves,
but the
sellers
helped
them
wear
the ban
gles. In
terestin
gly,
once
the new
bangle
s were
put on
a woma
n's
hand,
the
seller
broke
the old
bangle
s.



This particular village haat was also a place for me to understand the tribal enterprises. I learnt that most of the tribal women gather in the market to trade their products and purchase their food supplies for the week. On an average, they pay around Rs 30 per person for transportation. You can see two tribal women paying the vehicle's owner (pics below) and their items that they have brought to sell.



And
check
out the
followi
ng pict
ures to
underst
and
what
tribal
women
general
ly bring
to sell
in such
haats
ranging
from
food pr
oducts,
vegeta
bles, h
ome-
made
alcohol
to
orname
nts
made
by the
tribal.







**And
lots of
cash tr
ansacti
ons.....!**





And
last but
not the
least,
the pre
sence
of a
village
sethani
“landlo
rd’s
wife”
really
made a
differen
ce.



In my o
pinion,
a visit
to any
haat
bazaar
of any

village
gives
the gli
mpse
of the
social
and co
mmerci
al
lifestyle
of the
people
living
in that
commu
nity.
So next
time, if
you see
a
village
haat or
bazaar,
try to
spend
some
time
just ob
serving
. It is
quite
an expe
rience.

A Fresh
Look at
Informa
l Finan
ce in C
hennai

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-31 07:4look-at-
2:00 informa
l-financ
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•

There is revived interest in the role of informal credit in India, with researchers using a variety of innovative tools to study informal products and their delivery channels. While the majority

of
informal
loans
may
come
from pr
ofession
al mone
ylenders
, such
lenders
are not
the only
source
of
informal
credit
for
micro
and
small en
treprene
urs.
Indeed,
for hous
eholds,
non-
bank
credit is
provide
d by a
wide
range of
players,
includin
g money
lenders,
unregul
ated
pawn
brokers
and chit
funds, e
mployer
s and
local sho
pkeeper
s, and
caste
and kin
network
s.

Interest
ed in the
range of
alternati
ve
informal
credit
options
availabl
e to busi
nesses,

we
decided
to take a
fresh
look at
informal
credit p
roducts
in a
major w
holesale
fruit
and veg
etable
market
in Chen
nai. The
result:
we
found a
market
for alter
native
finance
that
revolved
around
mercha
nts asso
ciations
and the
provisio
n of
common
credit.

Two Ass
ociation
s, Two
Loan Pr
oducts,
Two Ou
tcomes

Amongs
t the coll
ective
loan pro
ducts we
examine
d, those
offered
by the
Tomato
Wholesa
ler
Welfare
Associat
ion (“to
mato ass
ociation
”) and

the
Banana
Mercha
nt
Welfare
Associat
ion (“ba
nana ass
ociation
”) were
most
notable.
Like
most vol
untary
trade as
sociatio
ns in
India,
both ass
ociation
s
function
to
protect
and
advance
the
common
business
interests
of the m
embers,
share in
formatio
n,
provide
mutual
assistan
ce, and
distribut
e gifts
during
festivals
and cere
monies.

In
addition
to these
basic fu
nctions,
we
found
that the
associati
ons had
credit
and
savings
features,
with
mixed
results.

In the case of the tomato association, the individual wholesaler had devised an intricate mechanism for the collective pooling of resources amongst 50 members. All wholesalers who wish to join are required to pay a 10,000 rupee deposit and contribute an additional 50 rupees a day in membership fees. This financial arrangement lasts for five years, and so members are not permitted to withdraw their contributions before that time lapses. Instead, wholesalers in need of funds may

borrow
from the
group at
a rate of
three
percent
per
month.
The
tomato
associati
on
deducts
a small
amount
of
interest
income
for oper
ating
costs
and
divides
the
interest
income
equally
among i
ndividu
al memb
ers. One
wholesal
er explai
ned that
he had a
ccumula
ted
more
than Rs.
200,000
in
interest
over the
course
of the
last four
years.



A banana vendor in Chen nai

The
banana
associati
on comp
rises 120
member
s who
pay an
annual
member
ship fee
of Rs.
1200.

For a
time, the
banana
associati
on provi
ded
loans to
its mem
bers at a
rate of 2
percent
per
month.¹

This
was
initially
designed
as a
system
of
mutual
assistan
ce. How
ever, the
banana
associati
on mem
bers we
spoke to
claimed
that
some me
mbers
took adv
antage
of the
system.
Realizin
g that
the asso
ciation
would
be reluc
tant to
use the
harsh en

forceme
nt
tactics
of profe
ssional
moneyle
nders,
some bo
rrowers
slipped
into
loan deli
nquency
and
default.
Rather
than
continue
to lose
money,
the mer
chants a
ssociatio
n
stopped
lending
to all its
member
s.

In additi
on, the
banana
associati
on
belongs
to a
larger a
ssociatio
n with
flower
and veg
etable m
erchants
. This
larger a
ssociatio
n of 450
retailers
previous
ly provi
ded assi
stance
for mem
bers to
receive
formal
bank
loans.
The asso
ciation
helped
arrange
docume

ntation i
ncluding
tax
returns,
attested
to the cr
editwort
hiness of
borrowe
rs, and
helped
confirm
that bor
rowers
had no o
utstandi
ng
credit o
bligatio
ns. In
order to
maintai
n credib
ility, the
associati
on was
serious
about
only end
orsing le
gitimate
candidat
es. This
process,
however
, created
antagoni
sm
amongst
the mem
bers. Me
rchants
with
poor
credit
histories
began to
approac
h the ass
ociation
demandi
ng assist
ance.
They
felt that
the
selective
provisio
n of loan
assistan
ce was
unfair.
Rather
than
risk
internal

division
and
discord
amongst
member
s, the as
sociatio
n simply
stopped
helping
member
s receive
loans.

*Read
the rest
of the
article
here:*
[bit.ly/CF
blog-Inf
ormalfin
ance](http://bit.ly/CFblog-Infomalfinance)

A letter
from a
MFI
Client
Dear re
gulator
s, polic
ymaker
s and
other st
akehol
ders:

2012-02a-letter-1
-16 15:3from-a-
1:00 mfi-
client

0 publish blogs

I am a
MFI
client
from an
urban
slum,
and yes
I have
taken
loans
from
2-3
MFIs o
peratin
g in my
area. I
do
have a
bank ac
count,
howeve
r, every
time I
have
tried to
use the
bankin
g servi
ces, I
found

the
entire p
rocess
too co
mplicat
ed, and
I have
no idea
about
b
ank

or
bank's
produc
ts. In a
ddition,
I do not
find
their
staff
friendly
or cour
teous. I
remem
ber the
day
when a
MFI
loan
officer
visited
my
house
asking
if I
needed
any
credit.
My
friends
and nei
ghbors
were
asked
to
make a
group
and
apply
for the
loans t
ogether
. Why
did I
need
credit
at that
time? I
remem
bered
that I
had
taken a
loan
from a
moneyl
ender
the pre
vious
month,
and I

thought
I could
use
this
MFI's
loan
that
had a
lower
interest
rate to
pay the
moneyl
ender.
At least
that
way I
could
save
some
money,
which,
otherwi
se
would
have
gone to
the mo
neylen
der.



(Pic

Source:
Sushmi
ta
Meka.
Note:
Pic
used
only for
represe
ntative
purpos
es)

Anothe
r loan
officer
came
within a
month
and
asked
me if I
needed
a loan. I
took
that
loan for
my chil
dren's
educati
on. The
next
month,
another
loan
officer
came in
our
area
and
again
offered
us
credit. I
took
that
loan
too to
fix the
floor of
my
house,
which
we
were pl
anning
for the
last 3
years.
That
year
was
difficult
for me
as I had
to
attend
3 meeti
ngs
every
week.

In addition, I felt obligated to pay the installment for anyone in my group, who was not able to make the payment. There were cases when some members ran away and I had to pay their share. It was not an easy process for me. Had the banks provided me an opportunity to save or take loan to meet my credit needs for education, home improvement and others, I would not have taken these micro loans from 3-4 MFIs and gone through this process.

I heard that regulators want us to use our loans for income generating purposes only. Could you please describe what income generating purpose is? Some of my group members have been running enterprises for the last 5 years, and I can understand them using these loans for their business. I was not born an entrepreneur, and I do not have any business. Hence, if I use this MFI loan for my children's education-how is that wrong? When I see non-poor people taking education loans and se

ending
their children
to good
schools and colleges
in India
and
abroad
so that
their children
get
good education,
don't
you
think,
we
poor
want
our children to
get
good education too?

How
about
health?
If my husband,
who
gets
salary
on a
daily
basis,
is sick
and not
able to
go to
work,
can I
not use
some
portion
of that
loan to
take
him to
a
doctor
or a hospital.
Every
day he
misses
his
work, it
affects
our livelihoods.
If I use
the MFI
loan for
home improvement,
do you
think it
is

wrong
because
we
poor
people
cannot
have
dreams
to construct
our
own
house.
When non-
poor
can
take a housing
loan,
why
cannot
I take
loan
from
MFIs to
construct my
own
house?

I heard
that the
regulators do
not
want
MFIs to
give
loans if
my
annual
household
income
is more
than
Rs. 1,20,000,
which
means,
my monthly
income
should
not be
more
than
Rs.
10,000.
My HH
income
is more
than
Rs. 10,000/month,
which
makes
me not
eligible

for a
MFI
loan. However,
if not
MFIs, I
have
no
option
but to
go to
the
nearby
moneylenders
for
loans.
Had I
been included
in an effective
banking
system
where I
could
save, I
could
use my
savings
for all
these
routine
or non-
routine
expenditures.
The
bank
official
thinks
he is
doing
me a
huge
favor
by just
letting
me
enter
his
bank
branch,
and
MFIs
cannot
take deposits.
Where
shall I
save
and
how?
Without
proper
savings
of my
own, I
do not
have
any
option
but to

rely on
credit
whenever
needed.

I heard
that the
regulators
do not
want
MFIs to
provide
more
than
Rs.
50,000
loan. If
you
want
me to
start a
new business,
then Rs
50,000
is not
enough
to start
any business.
My neighbor
wanted
to start
a chicken
business
and she
needed
Rs. 1,50,000.

Banks
could
not
help
her because
she did
not
have
any
ration
card or
other documents
to fulfill
their
Know
Your Customer
(KYC)
norms,
MFI
loan
officers
told her

that
they
could
not
provide
her
with a
loan
over Rs
50,000,
so she
had no
option
but to
rely on
moneyl
enders.

I
request
all regu
lators,
policy
makers
and ba
nkers
to visit
our
slums
once in
a while,
to unde
rstand
our pro
blems
and
then pr
obably
decide
what
we
should
do, and
what
not,
how we
should
use
loans
and
how
not. We
need
MFIs at
this
time be
cause
they
are the
ones
who
are me
eting
our
needs.
If the
Indian
bankin
g
system
works

well
and
gives
us an opportunity to
save, probably
we will
not
even
need
credit.
However, till
that happens,
we
have
no
option
but to continue
taking
loans
from
MFIs because
moneylenders
are
more expensive.

Thank
you

Regards

MFI
client

*This
letter is
based
on the
anecdotes collected
by the
author
during
her interaction
with
clients
in
urban
slums
in Karnataka in
January 2012*

Author
: Deepti
Kc

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her Go
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