India: Microcredit: emancipation or victimization? – The experience of Prantajan in West Bengal,

Saturday 16 January 2021, by DHAR Sushovan, Sankha Subhra Biswas (Date first published: 19 December 2020).

"The pandemic and the ensuing lock-down has hit India like never before. The loss of income caused an increase in the uptake of loans, mostly from employers, neighbours, relatives and money lenders and at high interest rates. It has been a trigger for other social and economic exploitation including trafficking, bonded labour and child labour. Under these circumstances, the members of Prantajan have started organising the victims of micro-credit.".

The pandemic and the ensuing lock-down has hit India like never before. A report by K Chandra Shekhar and Kasif Mansorr from Azim Premji University states "*According to the ILO report, in India, more than 400 million informal workers may get pushed into deeper poverty due to Covid-19 outbreak and sectors such as hospitality and accommodation, retail and wholesale, business services, construction and industry have suffered drastic consequences with a decrease in production and loss of hours and employment figures. In total, 1.25 billion workers in these industries, more than a third (37.5%) of the world's workers are at high risk. The condition of low-paid and low-skilled informal workers is very worrying in the low- and middle-income countries where industries and services employ a large proportion of these workers, who account for 61% of the global workforce or 2 billion people and lack social protection or a safety net.*"

Another survey representative of nearly 100,000 families in 11 states by the New Delhi based NGO, Praxis India found "*As livelihoods of dalits, Muslims, Adivasis and Nomadic and Denotified Tribes (DNTs) disappeared, the loss of income caused an increase in the uptake of loans, including from local moneylenders at high rates of interest." Further "Loans, mostly taken from employers, neighbours, relatives and money lenders and at high interest rates, have been a trigger for other social and economic exploitation including trafficking, bonded labour and child labour*".

Such has also been the experience of the members of *Prantajan* – a civil society initiative engaged with the marginalised - when they went to organise *Community Kitchen* in a number of areas in West Bengal, India. These kitchens were aimed to create solidarity networks amongst people devastated by the twin blow of the lock-down and the super cyclone *Amphan*. In the course of organising these community kitchens, they got a chance to interact with the local people, both men and women, and got to know about their biggest concern during the difficult times- the fear of facing the collection agents of different micro-finance institutions (MFI) who had earlier lent them.

And thus started the work of organising micro-credit victims, mostly women in the rural areas.

The work began by organising a survey of more than 100 women who had been taking loans but were unable to pay back since the onset of the lockdown. Let's look at the example of Sabina Khatun, a village lady who works as a low paid outsourced worker for the leather export industry. She took a loan of INR 80,000 for household needs. According to the contract she has to pay back INR 950 per week for 2 years, i.e. a total of INR 98,800 which is effectively at a rate of 21.73% per annum since the money is paid back every week. Currently, she is without a job and unable to pay weekly instalments and therefore, hounded by the loan collectors.

This is happening at a time when there is an increase in private corporate debt defaults . We have already seen that *"great business leaders like Vijay Mallya, Nirav Modi, Mehul Choksi, Jatin Mehta (Winsome Diamonds) and the Sandesara brothers (Sterling Biotech) are accused of wrongdoing and fled the country without paying their debts. Credit Suisse's India Corporate Health Tracker from August 2019 showed that with few exceptions, all large private companies are heavily in debt and "chronically stressed". He warned that a new wave of asset crisisnon-performing was coming. (For more, read "Rebooting Economy XIII: Why Indian corporates are debt-ridden") This was before the pandemic hit. The pandemic resulted in a moratorium on loan repayments, which large companies reveled in even when they were able to repay. The semi-annual report of the central bank , the Reserve Bank of India (RBI) on Financial Stability Report of July 2020 indicates that 70% of the moratorium offer was used by companies rated "A" and higher with a comfortable debt-to-equity ratio (meaning they could pay but chose not to).*

This RBI report warned that the gross non-performing assets ratio of regular commercial banks was likely to deteriorate from 8.5% in March 2020 to 12.5-14.7% in March 2021, due to the distress economic impact of the pandemic . [1]

Furthermore, "*India has lowered its interest rates by 0.4 percentage points, from 4.4% to an annual rate of 4%. The key rates a tool used by Central Banks to implement monetary policy. This change is the first to have taken place since on March 27th 2020, when the Central Bank lowered interest rates by 0.4 percentage points to 4.4%.*" [2] The key interest rate is in a steady decline since October 25, 2011 when it was 8.5%. The key interest rates are normally reduced to counter a weakening of prices, or a possible deflationary situation. It is also aimed at revitalising the economy and facilitating the rise of exports. Similarly, the interest on house building loan can be availed at an interest rate, as low as 6.75% per annum and at 7.3% per annum for buying automobile.

Therefore, this exorbitant rate of interest in the case of micro-credit reflects a class bias where the upper and the middle class is allowed loans at dirt cheap rates and the proletarian layers of the society are fleeced in the name of providing 'livelihood support'.

Back in 2005 microfinance secured its place in the headlines when the United Nations pompously declared that year as the *International Year of Microcredit and proclaimed "Microcredit has been changing people's lives and revitalizing communities since the beginning of trade. (…) The year of Microcredit 2005 calls for building inclusive financial sectors and strengthening the powerful, but often untapped, entrepreneurial spirit existing in communities around the world.*" This not only legitimised this sort of modern and organised usury but also certified microcredit as the key solution to poverty alleviation. However, in reality, microcredit successfully earned the sobriquet of 'death-trap' as it took the life of millions.

It was clear from our experiences that MFIs target the poor, not only who earn less but also who do not earn enough to sustain a dignified life. The MFIs lure these strata of the society with "easy loans" pushing hundreds of thousands of poor in a debt trap. The National Sample Survey Organisation (NSSO) has already in its report published shocking data on growing household debt India and has warned about a household debt crisis.

While the MFIs are in a looting spree, the government and the regulatory authorities like the Reserve Bank of India are turning a blind eye. It has created a green-field for MFIs by removing the highest ceiling of interest (26% - although it was already very high) back in 2014 [3]. As a result lenders fixed arbitrary rates and forced the borrowers to pay their money back, often unscrupulously.

Not not only are the interest rates high, there are serious rules violation in lending process. The Reserve Bank of India in its circular [4] clearly mentioned the lending rules and that should be followed in every case, viz. No penalty charges for late payment, no security deposit/ margin from the borrower, a standard form of loan agreement, the provision of a loan card reflecting : effective rate of interest charged; all other terms and conditions attached to the loan; information which adequately identifies the borrower and above all the information and the entries in the loan card in vernacular languages. However, our experiences show that these provisions are violated wilfully, There are neither any enforcement of the guidelines nor any penal action against the errant MFIs.

The MFIs neither provide any legal loan contract nor are interest rates mentioned in the loan card in vernacular languages. Agents only tell the borrowers to pay a certain amount of money after a week. In case, the former fails to comply the latter threaten them to pay the money back at any cost. Due to pandemic many loan recipient already failed to pay the dues and they have no clue when they will be able to pay their loan.

Conclusions

Under these circumstances, the members of Prantajan have started organising the victims of micro-credit. In the absence of meaningful financial inclusion processes and also, in the context of loss of livelihood, the task is arduous, but very important nonetheless. Apart from organising on the ground, several other strategies are being worked out including, larger campaign and legal recourse. The demand for legitimate financial inclusion occupies a vital space in this context.

There are also similar protests in different parts of the country and we intend to connect with them in the days to come.

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P.S.

CADTM

http://www.cadtm.org/Le-microcredit-emancipation-ou-victimisation

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Footnotes

[1] https://www.businesstoday.in/sectors/banks/indian-economy-who-needs-corporates-to-run-banks-and-how-will-it-help-indian-economy/story/423707 .html

[2] https://countryeconomy.com/key-rates/india

[3] RBI removes 26% interest rate cap on MFI loans- Economic Times, Feb 08, 2014

[4] RBI/2015-16/20DNBR(PD)CC.NO.047/03.10.119/2015-16