Micro Credit : A Few Hidden Facts

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The Bazaar, market, of micro-credit is growing bigger everyday as the capital has discovered allurement in the micro credit market because, borrowing from Marx, credit "money is breeding money". Thomas Dichter of the Washington DC based CATO Institute informs in his policy briefing paper *A Second Look at Micro-finance, The Sequence of Growth and Credit in Economic History* informs: "Microcredit... has grown rapidly in the past decade, reaching tens of millions of individuals around the world and providing billions of dollars in loans." About 100 million poor families are in the net of micro credit, as the Micro Credit Summit Campaign claims. The mission of the Campaign includes: working to ensure that 175 million of the world's poorest families, especially the women of those families, are receiving credit ... by the end of 2015. The number tells itself that the issue should not be kept aside. Moreover, the number is related to human being, the poor turned debtors, and overwhelming majority of them is unaware of the name of the game. The debtor is the major factor of capital's allurement and the debtor is available to capital at cheaper rate, cheaper than many other commodities in the present world economic system. The debtor of micro credit is poor and *vice versa,* micro credit has made the poor its prey. With the toil, to be specific, the labour power, of the dispossessed debtor the micro credit capital maximizes its profit in many countries in the periphery where the economic, social, political and investment climate is not safe for the capital to invest in manufacturing, etc. sectors and make profit. A closer look at a few facts hidden in the *modus operandi* of the capital engaged in micro credit help unmask the real face of micro credit.

It takes time, comparatively short or long, to get return, to appropriate surplus value generated from any investment and venture finance capital makes. And, in many cases, ventures turn to adventure for the finance capital and it has to bear the brunt. But in the case of micro credit the capital invested starts appropriating surplus value from the very moment it hands over the capital to the debtor. Whenever an amount of money is handed over as micro credit to any debtor an amount of money is kept with the creditor as the first instalment of repayment of the debt that includes the principal amount, the insurance premium of the credit money, the interest, and, as Marx tells in his *Capital,* "interest is a mere fragment of surplus-value". If \$50 is lent as micro credit, to be repaid in a year as \$52 including the principal amount and the "service charge", as the micro-creditors use the term instead of calling it interest, in 52 equal weekly installments, then \$1, as first repayment installment, is kept with by the creditor while disbursing the credit money. Actually, the debtor receives \$49, but the poor fellow's debt is counted as \$50. The \$1 includes the principal amount, the interest, the credit insurance premium, recovery costs, the operational expenses, etc. If the creditor disburses micro credit, in a day's transaction, to 1,000 persons, each of them with

$50, then the creditor actually hands over $49,000 while the creditor's books of accounts record $50,000 as credit disbursed and $1,000 as repaid as the first instalment and the creditor pockets $1,000 as instant return that is again disbursed, as micro credit, to other guys and it follows the same circuit in a cyclic order. This $1,000, whatever it is, profit or surplus value or part of surplus value, is the money actually owned by the debtors who have received $49,000 in the name of $50,000 but forfeited by the creditor. The scenario described above is hypothetical. Following is a statement on micro credit disbursement : *"The Grameen Bank operates its microcredit scheme on a fifty-two-week (one year) fiscal cycle. The first fifty weeks cover 100 percent repayment of the principal amount, that is, the borrower pays 2 percent on the capital amount every week. Te remaining two weeks of the fiscal cycle is scheduled for payment of the interest and borrower' contribution to the emergency fund. In most investment loans the bank charges the rate of 20 percent interest; the emergency fund contribution of the borrower is 25 percent of the grosly calculated yearly interest on every repaid loan. The interest and emergency fund contribution together are twelve and half times greater than the borrower's weekly instalment, but the borrower must pay it in the remaining two weeks of the year to become eligible for the next loan from the Grameen Bank. ...By the end of 1996, the Grameen Bank had modified the repayment terms. Now the interest payments are spread over fifty weeks and accepted with the instalment payments. Collection of an emergency fund was terminated in* 1996" (Rahman : 1999).

A closer scrutiny of the above statement reveals the truth: from where and how the debtor pays? There are amendments, changes and alterations in the mode of repayment; variations in the mode of loan disbursement; variations among lending organizations and in countries. But the general mode of appropriating surplus value from the hapless debtor does not change. Moreover, there are organizations that tie other conditions to lending that carry implications in monetary terms, transfer of technology favourable to MNCs and to metropolitan markets and harmful to ecology. The mainstream economics, borrowing from the *Capital,* with "keen eyes of an expert", hides this fact which history and the debtors will determine that whether that was an honest exercise or not.

Since its inception, as the Credit and Development Forum (CDF) publication *Microfinance Statistics* (MS) (vol. 17, December, 2004) informs, the cumulative amount disbursed by the world famous *Grameen Bank* was Taka (Tk) 217,313.9 million. There in the Bangladesh micro credit market the number of formal, institutional micro credit operators is more than a thousand whose cumulative amount of disbursed micro credit, it is assumed, reaches to more than billions of Taka. The MS tells: There were 4,059,632 persons -3,883,383 females and 176,249 males - only in the Grameen micro credit net spread over 48,472 villages (CDF:2005). And, the cumulative amount of micro credit disbursed as loan till 2004 by the 721 micro finance organizations (MFO) that reported to the CDF in Bangladesh? As reported by the CDF in its above mentioned publication, it was Tk 338,635.65 million in 2004, Tk 269,472.09 million in 2003 by 720 MFOs and Tk 125,607.61 million in 2000 by 585 MFOs. Any reader can now assume the amount of appropriation. What will be the amount if the "$1 business" goes on for years and it is circulated and circulated?

The "$1 business" carries another intricacy that is not also discussed by the romanticist economists. The industrial or manufacturing capital appropriates surplus labour after it makes an investment, labour power turns the wheels and necessary and surplus labour times are passed. Even the capital engaged in trading or transportation takes its share in the surplus value after it provides its services to the industrial capital or completes a stage or a part of its functions and surplus labour time is pocketed after the necessary labour time is passed and surplus value is created. But the capital engaged in micro finance appropriates a portion of surplus value before the debtor actually produces it, even before the debtor goes back to his own home with the credit money, procures tools (a pan for preparing puffed rice, etc.) or raw materials (rice for preparing puffed rice, etc.) or a transport (a rickshaw van, etc.) even before the person procures bare necessities to keep own and household members' body and soul together so that they can produce the required surplus value to repay the credit money with its interest. The "magic" happens with the $1 appropriated while disbursing the credit money. With the actual credit of $49, not the recorded credit of $50, the debtor has to work for the surplus labour time for repaying $51. This squeezes the necessary labour time and widens the surplus labour time. In other words, the creditor dictates and regulates the debtor's working hour, pace of work, time for rest and the entire day-cycle. This intensifies the rate and speed of appropriation of surplus labour, and also, actually appropriates in advance a portion of the surplus value before it is produced and the appropriation takes place before the metamorphosis of credit money is completed and even the circuit of micro-finance money gets started. The appropriation by the creditor takes place before a debtor turns wage worker, produces subsistence for one self and for the family by spending necessary labour time. The industrial or manufacturing capital or the trading capital or even the capital engaged in speculation has not, till today, succeeded in making the "magic". It seems that the circuit of M-C-M' is "by passed" temporarily at the *le premier pas*. A working hand is asked to hand over in advance a portion of the surplus value the person will be producing in future. A "great benevolence" of creditors for the poor indeed!

Before a debtor receives a micro credit the person, along with the person's peers, deposit an amount of money, on instalment basis, and after a certain period of time the persons organized in group appear eligible to be debtors. Then the micro credit is disbursed to one group member or more than one. The fund created with the savings of the poor usually acts as an insurance and collateral for the micro credit to be disbursed. Moreover, it helps the creditor to asses the credit worthiness of the would - be - debtors. During the initial period of depositing the would - be -debtors go through "motivation" and training, that are actually making them habituated to behave "properly" as debtor and disciplining or regimenting them and, "to train, good borrowers ...lowers the operating costs of ... the institutions which subsequently lend to them" (Hulme & Mosley:1996). Now, it is to the readers, to consider that whether the statement of collateral-free credit is true or false. A reader may recall the statement of G M Bell, a Scottish bank director, quoted by Marx: "*Banking establishments are ... moral and* *religious institutions ....How often has the fear of being seen by the watchful and reproving eye of his banker deterred the young tradesman from joining the company of riotous and extravagant friends? ...Has not the frown of his banker been of more influence with him than the jeers and discouragements of his friends? Has he not trembled to be supposed guilty of deceit or the slightest misstatement, lest it should give rise to suspicion, and his accommodation e in consequence restricted or discontinued? ... And has not that friendly advice been of more value to him than that of priest'.'*" (Marx: 1977).

The scene of the "drama" does not drop here. Like wind-fall the fund is wind-blown to the crafty creditor. The poor fellows' savings are loaned out to other poor fellows as micro credit and it revolves and revolves and it acts like a Geneva motion. The facts tell the "story": Of the total revolving loan fund (RLF) of 721 micro financing organizations (MFO) that reported to the Credit and Development Forum (CDF) in 2004 the percentage of the "Members' savings" was 28.50 and the percentage of "Service charge" was 23.69. The MFO's "Own fund" was only 4.38% (CDF: op. cit.). The guys waiting to be liberated from the shackles of poverty provided more than half of the RLF with their toil and then they again paid the interest that carried a part of the surplus value they produced. Is not there room to be skeptic about the "benevolent" banker for the poor? This reveals only a part of the palm of micro credit.

While the regimentation, seasoning to be a faithful debtor, goes on the deposits, as idle money, continue its function: credited to others and, as usual, appropriating in advance a portion of surplus value before a commodity is produced or a transportation service is provided to a manufacturer, before the credit money is transformed to productive capital, to commodity capital, etc. An example will help understand the function: 10 persons organized as would-be-debtors group creates a fund of $40 in a month by depositing every week $1 each, and, the money instantly, save the transfer time, is lent out. If, there in a village are 2 groups; if, 1,000 villages are in the micro-credit net; and, if the cycle moves on for 12 months, will the amount be a peanut? The revolving loan fund of microfinance programmes of the above mentioned 721 MFOs in 2004 was Taka (Tk), Bangladesh currency, 57,627.97 million. In 2003, the amount was Tk. 47,363 million of 720 MFOs.

Yes, a creditor can / may calculate an amount of money as interest on the deposited amount of money of the group or groups in the books of accounts. What, in reality, happens to the fund generated by the group members? The answer is available in a few studies and is also available in the statistics of the concerned creditors' reports. The answer is not a positive one. Whatever happens the questions it will generate will further unmask the hidden face of micro credit :

1. Is the rate same as the creditor charges from the debtors? 2. Is it calculated in the same formula for the both: the creditor and the poor depositing the money or separate formulas for the separate parties, simple rate for one and compound rate for the other, or flat method for one and declining method for the other? 3. Do the persons owning the money have the opportunity to decide the utilization of their deposited money? 4. Does a person have the scope of getting back own money if the person decides to withdraw? 5. Where is the insurance of the deposited money? A micro creditor will, obviously, provide sweet answers to

these questions. So, the last, sixth, question: is there any discrepancy between the pronounced answers and actual practice in real life? The embarrassing truth is in the pages of the above cited CDF publication from page 80 to page 169. Data in the pages show that there are wide difference between the two interest rates, one, from the debtor and the other to the depositor. There is also discrepancy, except a negligible number of MFOs, in the method of computing the two interest rates. The discrepancy in the method of computation of interest rates of the two makes the difference wider. A discrepancy between pronouncements and acts or a lie, whatever is termed, will weaken the creditor's standing. And, facts from field are stranger than fictions produced by the friends of micro credit in the mainstream. Following is a finding:"[Grameen] Bank members report that group fund are not as accessible as they would like....Although it [emergency fund] has accumulated to Tk 145 million, disbursements to date are minimal and, consequently, the fund is unpopular with members, being seen as a disguised borrowing charge" (Fuglesang & Chandler : 1993). There are many other similar findings also which are not referred here.

The appropriation takes a more merciless form since the debtor goes back to own home with the credit money from the creditor. The debtor has to pay the second instalment on the next week or the next fortnight, depending on the style of the creditor. It may happen that the commodity could not be produced by the next week or the produced commodity could not be sold out or the quantity of the sold out commodity could not fetch in the requisite amount of money to repay the second installment or the market was depressed that refrained the debtor from selling the commodity produced with the credit money or the rickshaw van "failed to earn" the required money. Despite this reality the debtor has to repay the second installment. Instead of purchasing food, etc. for the household the debtor has to maintain the commitmeni to repay the next installment and the first and prime concern is the repayment of the debt. The creditor appears at the "door steps" of the debtor, which the micro creditors proudly describe as their "client-friendly" service delivery system that actually carries a different tact, and demand the installment. The failure of the debtor to stand by own oath carries consequences. In similar cases what the sincere efforts the faithful debtor makes to repay the installment? The answer unmasks the crude cruelty of the micro credit capital. The debtor, other than in a distorted situation, either deprives self and the household members by cutting down their subsistence or as wage worker having the means of production procured with the credit money squeezes down the necessary labour time put by self or by members of the household, lengthens the surplus labour time or sells self or other household member's labour power to some other owner of the means of production and "collects" the promised amount for the loan repayment installment. In the second case, selling labour power to someone, the debtor turned wage worker takes away a portion of the money produced in the necessary labour time to repay the scheduled installment and that means, again, depriving self and the dependents of the subsistence and, at the same time, "extorting", on behalf of the creditor, a portion of the value produced during the necessary labour time. Whatever "mechanism" is followed the consequence is tearing down the body and soul of the debtor and the dependents upon the debtor, irrespective of age—minor or old, gender, sick or non-sick. In a distorted situation, the debtor borrows money from a moneylender in the informal sector, at higher rate of interest or from a friend or a relative or from a peer group member with interest or from some other micro creditor (SOM). In this case, borrowing from SOM, the debtor or the debtor's spouse gets admitted with the SOM–organized group earlier. There is another distorted situation scenario: the debtor, if defaults, is issued a bigger amount of credit by the same micro creditor (SMC), the earlier credited amount is realized and the rest amount is handed over to the debtor as a new loan, which is a bigger one than the earlier one and thus putting a bigger burden of credit on the debtor. And, then what happens to the debtor? As Hemingway provides the answer: "First you borrow. Then you beg" *(The Old Man and the Sea)*. Thus the SMC credits itself with an "amazing" recovery rate that has a role, partly, to construct the myth of micro credit. Whoever the "savior", SOM or SMC, the debtor's condition worsens, the "size" of appropriated surplus labour gets bigger. Then it turns out difficult for the debtor to free oneself from the tentacles of micro credit. The debtor thus becomes an appendage to the micro credit machine. And, as these "intricacies" of the credit capital takes place keeping the debtor unaware, in general, the appropriation actually turns to thievery.

Of these debtors referred above the overwhelming majority are the women. "(Female borrowers have proved more reliable than male borrowers: consequently some lenders have found that their financial performance can be improved by focusing on female borrowers" (Hulme & Mosley, op. cit). "[W]omen repay better than men...This may well ... provide an apparent rationale for the decision taken by a number of group –lending NGOs (including Grameen. BRAC.) to lend only to women henceforth" (ibid.). The loan recovery rate for general loans for women was 97 percent compareding to 89 percent for men in 1992 (Khandkar et al: 1993). Though there are two stories on women borrowers, their number and users of credit money borrowed in their names, one, proudly publicized by the media under the spell of micro credit, and the other, the reality found in a number of researches, theoretically it is the women from whom the capital engaged in micro credit appropriates surplus value most as women, according to statistics from literature of the MFOs, are the biggest debtor group and thus micro credit spares the "stronger" and exploits the "weaker" in appearance. The explanations forwarded by the mainstream economics in essence is the evidence of coercion or the fear factor that drives the women to perform as good borrowers who repay regularly. The micro creditors, however, propagate it as empowerment of the women. The reasons behind their "earnest" effort for "empowerment" of women include : possibility of migration or fleeing away or physical mobility of women debtor is least; and "their culturally patterned behavior (shy, passive, and submissive)"(Rahman, op. cit.). Rahman quotes Mafiz, a Grameen Bank (GB) worker. Mafiz said: *Women in the village are easily traceable.They regularly attend more group meetings than men. Women are more reliable and are more disciplined (passive/submissive) than men. Working with women is easier than working with me (ibid.)*. Another GB worker told Aminur: *In the field it is hard to work with male members. They do not come to meetings, they are arrogant, they argue with bank workers and sometimes they even threaten and scare the bank workers. It is good that our* *superior officers have decided not to recruit new male members, although we do not have any written instruction about it (ibid.).* There are other studies revealing similar facts. In patriarchal society women and their honour are more vulnerable than men and micro creditors capitalize this vulnerability under the facade of 'empowerment". Anne Marie Goetz, a political scientist and Rina Sen Gupta, an economist in their 1996 study "Women Leadership in Rural Development in Bangladesh" had similar observations. One female informant of Aminur told: *When a woman fails to make her installments on time, she experiences humiliation through verbal aggression from peers and bank workers in the loan center* (ibid.). Incidents of women debtors committing suicides due to humiliation for failure in repaying credit installments have been reported in press and by studies.

But astonishingly this is fact concerning human and ethics has not been highlighted by the mainstream and the micro credit fed propaganda machine.

The debtor of micro credit has no bargaining power. The virtual wage-slave embodied in the debtor can neither bargain the rate of interest, the size of the credit, the period of repayment, the rescheduling of credit, etc. All these depend upon the creditor with bagful of capital. Each debtor competes with the other one and thus strengthens the creditor's unilateral power. The hapless position of the debtor and the very nature of the *modus operandi* of micro credit, along with the barrage of propaganda by the mainstream and the theoretical inconclusiveness of the critics of micro-credit have permitted the micro *creditwallahs* to avoid, till today, any law and regulation on working condition, working age, toil by women, safety measures, etc., and, any union of the debt slaves turned wage workers. Even, as far evidenced from the available literature, the critics have also missed the aspect. So, there is absence of charter of demands of the debtors the industrialists usually have to face from labour. The household based, individualized, isolated production or servicing units, each competing with the other similar units and in the market, permit, and in essence encourage avoid these aspects. The debtor turned wage labourer tries, on behalf of the creditor, to expand surplus labour time, to use cheaper labour power in own household, even sometimes using common property resource, to sharpen the competitive edge of the commodity produced in the household unit so that the repayment can be made on schedule and these allow prevail the condition. And, obviously a portion of benefits from common property resource (CPR) reaches the micro creditor through the hands of debtors. Who own the CPRs and who reaps profit from these? Is not it the people and is not it the micro creditor respectively? Has this fact of virtual usurpation of public property by micro creditor been discussed by the mainstream?

While the micro creditor has an in-built insurance of the credit money, discussed and calculated in micro-credit literature, the debtor's production or servicing unit stands without coverage in the face of any accident. What happens when a rickshaw van faces an accident and its part or parts break up or, when a woman debtor faces an accident while producing a commodity with micro credit money in her household or, a rickshaw van puller faces an accident, a fracture in his leg and the rickshaw van was procured with micro credit money? While the micro credit money is insured and the debtors pay the insurance premium the unfortunate debtors producing surplus value to repay the loan are uninsured. Is it "an inconvenient truth"? With billions in investment, with millions in the appropriation net the avoidance of related regulations has been made possible by the micro credit capital, a variation of usurer capital, in absence of any bargaining power of the debtor-slave. A unique scene of tranquility indeed! An evidence of skill, shrewdness and innovation of the capital engaged in micro credit also.

AN ANNEX

The labour power the staff of micro credit organizations put into collection of "deposits" from the debtors and repayments of credit money by the debtors during visits to the debtors' gathering or at the individual debtor's premise, the highbrow the staff exhibit on the debtor's hapless face and the skill of intimidation they show, their extended, often super-extended working hour, that push many of them to the verge of physical and mental tear down condition is also a "channel" of surplus value that micro credit feeds on, with which it fattens itself. "Intensive loan-collection systems use the labour of bank [the micro creditor] staff (and some capital goods, such as motor cycles) to reduce the cost [of disbursing and collecting back the credit money] ... and mounts a credible threat against default" (Hulme and Mosley, op. cit.). While considering the question of appropriation of surplus value by the micro credit capital the labour power of these staff, mere tools and victims of the system, should not be overlooked, should not miss a sympathetic "mind".

Source:

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