

EXPLORING THE CONCEPT OF INTEREST FREE MICRO-FINANCE

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Abstract : Microfinance has been able to serve the poorest of the poor across the world. It is believed that microfinance has been responsible for poverty elevation, promote economic development, generate employment, propel saving and growth and support micro-business and micro-entrepreneurs. The Grameen Bank of Bangladesh as an institution has played a pivotal role in popularizing the concept of micro-financing across the world especially in the developing countries, to such an extent that it has become the 'model' to copy.

The only disturbing factor in micro-financing is the element of 'interest'. If only interest could be eliminated, it will bring down the burden on the borrower to that extent. The saving that the borrower could make can add to his 'savings' and be more fruitful.

The concept of 'interest free micro finance' is an attempt towards this idea. There are many hurdles and oppositions in implementing the idea in practice, but that is bound to be, as it is always with something new before it is accepted. Slowly but steadily the idea will grow, this is the beginning.

Keywords: Interest free micro-finance, Sustainability

INTRODUCTION:

Napoleon Bonaparte said "There are but two powers in the world, the sword and the mind. In the long run the sword is always beaten by the mind." This is very true; the only necessity is to apply the mind in the right direction towards fulfilling not only individual dreams but the dreams of the masses.

Dr. Muhammad Yunus, microcredit pioneer states that "despite having being unsure if my model of microfinance would work and be successful or not, I was never afraid of failure. I jumped at what I felt was right. The whole world was telling me that it won't work. It's a utopian idea; it won't survive long. But I didn't listen to them. I listened to myself. That I think is very important. And I stayed on my course." Dr. Yunus did not give-up and went on to establish the now famous Grameen Bank of Bangladesh which is replicated the world over.

CONCEPT OF INTEREST FREE MICROFINANCE:

Microfinance probably started long back then recorded history. In terms of the present era it can be traced back to 1848 in Germany and from there it spread across the European countries, North America, Indonesia and Latin America. It was in 1970 that it was resurrected and took roots in the Asian Continent in Bangladesh under the pioneering 'banker to the poor' Prof. Muhammad Yunus and from there it spread across the world to be embraced by one and all.

In 2001 yet another person reinvented the concept of microfinance. Dr. Amjad Saqib founder of the Akhuwat an interest free lending institution in Pakistan was set-up with a small lending of Pk. Rs. 10000/ to widowed woman with guarantee from a group she formed under his advice. The idea is now a running enterprise which has disbursed PKR 5.3 billion to 350000 poor families in Pakistan. The late Dr. Malcolm Harper, a veteran in the field of microenterprises and microfinance promotion has said, "Akhuwat was doing for conventional microfinance what Professor Muhammad Yunus had done for conventional banking in the late 1970s it was showing that things could be done differently, and that the 'accepted wisdom' could

be challenged”

There is a need to re-look into making the micro-financing system more vibrant by introducing the concept of 'interest free' functioning of the system. It is not a new concept. It is being practice at different level by different groups across the world, and in India it is practiced by Rahat Nagri Co-operative Society, Osmananbad. This successful implementation of the interest free micro-finance can be a road map for the rest of the coutry. Of course there is a need to formalize it and bring it to the center stage. It may seem to be impossible, but there are various avenues which can be explored to do so. This paper is an attempt to take such a lead.

OBJECTIVES

- 1 Initiating the alternate to 'interest'
- 2 Present a micro working model of interest free micro financing.
- 3 Creating interest among the readers to form their micro financing society.

EXPLORING THE CONCEPT

a. Who needs microfinance and why: It is basically for the poor who are out of the accessibility of formal banking system, but need financial support in small dose to overcome their hurdles. This need could be varied, like fulfilling personal or family needs, for starting micro business, to overcome natural disasters etc.

b. What is wrong with the present microfinance system: As microfinance aims to help the deprived and pull them up from under the line of poverty, then the only element that disturbs the concept is 'interest'. If the element of interest is done away with, it will lessen the burden on the already 'deprived' borrower. There can be micro lending without interest, therefore thinking of creating a microfinance system without 'interest'. Everyone says it is non workable, but let me follow the advice of Dr. Muhammad Yunus, stay on the course and also initiate others also to follow.

THE MODEL: INTEREST FREE SHG MICROFINANCE

Instead of the normal procedure of forming SHG and approaching micro-financing institutions for loans, we deviate here. The SHG needs to initiate the process of pulling in their financial (savings) and human resources together and building upon them. In the beginning the financial resources will seem to be minuscule but as the days and months go by the 'pool' will grow`.

Illustrative Example: Let us assume there are 20 members contributing Rs10 every day, which means monthly contribution of Rs. 300/ per member which pooled together is Rs.6000/-. Loans up to Rs. 3000/ are given per person at the end of 15 days collection and the repayment in ten months, with a daily collection of Rs.10/.

Membership Collection and Loan Disbursement Chart

Collection 15 Day Interval	Primary Contribution in Rupees	Repayment of Loan in Rupees	Total Collection in Rupees	Loan Disbursement at the interval of 15 days in Rupees	Balance in Rupees
1	3000	-	3000	3000 (L1)	
2	3000	150	3150	3000 (L2)	150
3	3000	300	3300	3000 (L3)	450
4	3000	450	3450	3000 (L4)	900
5	3000	600	3600	3000 (L5)	1500
6	3000	750	3750	3000 (L6)	2250
7	3000	900	3900	3000 (L7)	3150
8	3000	1050	4050	3000 (L8) 3000 (L9)	1200

Source: Compiled by the researchers.

From the above chart it is clear that the compounding factor will help to grow the SHG's financial strength over the period.

GUIDELINE TO SET THE INTEREST FREE SHG

Aims and Objectives:

The formal objectives of the Fund include the following:

- 1.To alleviate poverty.
- 2.To help to lay the foundations of community cohesion and peace building
- 3.To issue loans without charge of interest to entrepreneurs who want to start up a business or to sustain or to expand an existing business or to individuals seeking loans to fund personal education or training or acquisition of tools or goods for business; priority being given to those who cannot otherwise secure funds but whom the Trust's officers judge to be sound business propositions.
- 4.To provide advice, information and signposting to potential and existing borrowers.
- 5.To coordinate efforts with other micro-finance organizations providing funds.
- 6.To develop interest free financial mechanism
- 7.To inculcate the universal brotherhood and the spirit of mutual co-operation
- 8.To extend interest free financial help for emergencies and contingencies.
- 9.Under no circumstances charge interest.

WORKING COMMITTEE COUNCIL:

- 1.Few honest, sincere, active and social persons may form the “advisory committee” which may consist of:
1. Director, 2. President, 3. Vice-president, 4. Sharia advisor, 5. In charge, 6. Secretary, 7. Joint Secretary, 8. Special advisor, 9. Advisor.
- 2.The number of office bearers may be increased or decreased depending upon the size of the SHG.
- 3.The decision taken by the working committee is final.
- 4.The members of the working committee must meet every month to discuss the matters and take decisions.
- 5.If required, there can be emergency meetings too.
- 6.During the meeting, the members can raise the points and ask for the explanation.
- 7.The working committee is selected for a period of five years.

WORKING SYSTEM:

- 1.Every member must give daily/monthly contribution fixed by them mutually. (The amount may be Rs.10/100onwards)
- 2.The amount deposited will not bear any interest.
- 3.Secretary can collect the contributions and maintain the records properly.
- 4.The amount collected is to be disbursed as interest free loan totally at interval of week or month. No cash balance should be kept.
- 5.The interest free loan is given on the basis of seniority, priority, emergency (like accident, illness, natural calamities etc.). This decision is taken by the Working Committee Council.
- 6.The member having no loans dues will have the priority in getting loan.
- 7.The member can get interest free loan maximum to the extent of double the amount of his monthly deposits.
8. The amount of interest free loan can be increased depending upon the availability of funds.

Interest free loan:

a. To Members:

The interest free loan can be given to the members on the basis of the followings.

- I. The member should not have any dues from the society.
- ii. He should apply for the loan in writing.
- iii. The guarantor must sign the application form.
- iv. Two more members should also sign the application form.

b. To Non-Members:

The loans to non-members can be extended on the same lines.

- i. The member should not have any dues from the society.
- ii. He should apply for the loan in writing.
- iii. The guarantor must sign the application form.
- iv. Two more members should also sign the application form.

RECOVERY OF INTEREST FREE LOAN:

1. The loan should be refunded in the number of installments agreed upon.
2. In case of default the recovery of the loan is done as under.
3. 50% is the responsibility of the guarantor
4. 20% is the responsibility of the other member who has signed the application
5. Another 20% is the responsibility of the another member who has signed the application
6. Remaining 10% is to be paid by the society from its own income.

THE EXPENSES OF THE SOCIETY:

1. When the members apply for the loan, they are required to pay the estimated per loan expenses calculated on the basis of total estimated expenditure per year divided by the estimated number of loans sanctioned per year.
2. The expenses of the society such as maintenance of books of accounts, honorarium to some of the office bearers etc. are met out of these collections.

CONCLUSION

Starting an Interest Free SHG is not a problem; it is the sustainability that is important in the long run. In general sustainability in simple terms refers to the long-term continuation of the program. It entails that appropriate systems and processes have been put in place that will enable the services to be available on a continuous basis in a routine manner. These systems and processes should be customized as per requirement. This also would mean that the program would meet the needs of the members through resources raised on their own strength, either from among themselves or from external sources.

Care need to be taken to be transparent at every level of functioning. This will bring in cohesiveness among the group and difference as and when they crop up will be ironed amicably.

Hopefully forming and functioning of such interest free SHG in the society will create self-sufficient vibrant groups which will elevate people from the realms of poverty and push them towards prosperity.

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