Interest Free Microfinance

A potential step for inclusive growth and empowerment

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Publisher: Sahulat Microfinance Society

First Edition: August, 2013

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Printed by: Drishti Printers

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Preface

Microfinance, a phenomenon in the field of developmental economics, conceptualized within the framework of equitable access to and just distribution of financial services to address the issue of poverty. It has been implemented with various approaches by many institutions across the globe especially in the developing countries. The critique of microfinance in relation to its impact on poverty alleviation too grew along with its popularity. A good amount of research has been done on the microfinance industry encompassing both its pros and cons. However, Interest-free Microfinance, its emerging variant, has found very less space in academic literature as well as policies and almost negligible space in practice.

Al-Khair Charitable Trust piloted this idea of Interest-free Microfinance through Al-Khair Co-operative Credit Society Ltd. at a micro level in Bihar. Sahulat Microfinance Society emerged out of this initiative to advocate for an enabling policy and to implement the idea in other marginalized regions of the country. As part of their advocacy efforts, Sahulat organized a National Consultation in pursuance towards mobilizing support for the formulation of a National Policy conducive to Interest-free Microfinance through Cooperatives, in India.

This advocacy document comprises various aspects of the proposed alternative model of Interest-free Microfinance Institutions, its experience from the Al-Khair Co-operative initiative, the ways in which it addresses the issues of conventional microfinance, challenges and limitations and the scope of this model in the present Indian context.

Acknowledgement

It is my pleasant duty on behalf of Sahulat Microfinance Society, to acknowledge the gracious presence and valuable contributions of iconic Professor M.S. Swaminathan, Member Rajya Sabha and Dr (Mrs) Syeda Saiyidain Hameed, Member Planning Commission. We are grateful to the distinguished participants in the consultation who shared their experiences with us and have helped us in visioning the actualization of Interest-free Microfinance in India. This advocacy document has been possible due to their efforts. We specially acknowledge the participation of United Nations Development Programme (UNDP), Food and Agricultural Organisation (FAO) International Co-operative Alliance (ICA), National Co-operative Development Corporation (NCDC), National Cooperative Union of India (NCUI), Indian Farmers Fertiliser Co-operative Limited (IFFCO), BASIX and Deepalaya.

In the backdrop of this endeavour, it was the continuous encouragement extended by Hon. President of the society Prof. K. A. Siddiq Hassan who kept tracking various developments during the preparatory stage of the consultation with utmost patience that made the program possible and successful. We missed him in the Consultation due to his illness, which is still prolonging. We pray for his full and speedy recovery.

We are grateful to Mr. Shashi Bhushan for providing us with his report titled "Small Credits & Institutional Financing Gap" which has helped us in the formulation and conception of this document. We also acknowledge Ms. Tahura Zia for her project report "Viability of Microfinance in the Indian Economy using Islamic financial instruments". We are particularly thankful to Al-Khair Co-operative Credit Society Ltd. for its constant assistance.

We acknowledge the contribution of Mr. Najmul Hoda, who was earlier with Sahulat as Director, Research and Training.

For organizing the event we would like to acknowledge the support of Mr. Pareethu Bava Khan and Mr. B.R. Nair, who took the pain to visit Delhi a couple of times from Kerala for the same. Their ability to plan and accommodate every single requirement made the National Consultation possible.

Our staff members under the leadership of Mr. Azim Hussain, Manager Operations and Research, also worked relentlessly. I would like to mention their names individually, Ms. Tahmina Laskar, Mr. Usama Khan, Mr. Sadiq Shabibi, Mr. Arshad Ali, Mr. Shiraz.S. Poovachal, Mr. Fisal K P (intern).

This document is due to the effort of Ms. Mridu Kamal who gladly agreed to document the proceedings of the National Consultation into a report, read a lot and develop a sound understanding on Interest-free Microfinance to develop this advocacy document. We are thankful to Ms. Stuti Kamal for the beautiful cover design. Last but not the least we are thankful to Mr. Kishor for his tireless efforts to design and layout the document with the best packaging.

Arshad Ajmal
Vice President

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INTRODUCTION

This advocacy document acknowledges the fact that a lot has already been written about the context and need for financial services in India, and thus does not talk about the matter from the scratch. The performances of various microfinance service providers, with respect to their mandates have also been evaluated time and again by the Government institutions, INGOs and NGOs with critical reflections on its structure, policies and functioning. This has opened up the latent debates on alternative models and approaches to microfinance which has a potential to address the issues of both formal and informal financial services.

As mentioned in a study by SIDBI on interest rates and costs of Microfinance Institutions (MFIs), 2011, concerns have been highlighted about (i) lack of transparent pricing information on the interest fee and other fees charged to the client (ii) the quality of governance of MFIs which became a matter of concern since the mission drift was discernible in some of the MFIs. In certain regions, aggressive competition among MFIs also resulted in (a) excessive financing to clients (b) inadequate due diligence in client acquisition and financing (c) lowering of disciplinary standards and (d) coercive recovery practices.

Microfinance is addressing only those who are much above subsistence level, thus defying the idea of alleviating poverty. According to the Rural Finance Access Survey 2003 (RFAS)[1] conducted by the World Bank, 21% of rural households have access to credit from a formal source. The implications are predictable – impoverishment, distress and migration sometimes leading to extreme conditions. The SHG model for microfinance has been studied by a women's organisation called Nirantar[2] and the findings turned the tables on the idea of inclusiveness and women's empowerment through SHGs. It stated that although SHGs provide opportunities for women to have access to loan money, they certainly do not ensure women's entitlement to the use of resources the money provides. It rather burdens the women with the repayment of loan. It also brought forth the fact that women from most marginalised sections of society, due to various reasons could not benefit from this model.

Given the above mentioned conditions, microfinance services have been effectively accessed by broadly the income groups which have been able to

[1] https://openknowledge.worldbank.org/bitstream/handle/10986/8311/wps3646.pdf?sequence=1
[2] Nirantar; Examining SHGs: Empowerment, Poverty Alleviation and Education-A qualitative Study

repay on time, deposit assets to secure credit facilities, wade their way through the lengthy process to secure micro credit that too mainly for investment purposes. The lower income groups which have tried to access these services have also faced various circumstances in the face of inability to secure these services, deposit assets, inability to repay etc. The Malegam Committee Report clearly stated the dire need to make provisions of micro credit for borrowers from low income groups, requiring small amount of loans without collaterals for both income generating activities consumption purposes for shorter period.

In the light of above reflections and recommendations, MFIs could possibly start mobilising micro-savings for generating micro-credits for productive purposes. However, a portion of loanable fund might also be utilised for genuine consumption needs, like education, asset creation, health etc. Microfinance activities might include micro-insurance and money transfer at a later stage. These are the most important financial services needed by the poor. The secondary services might include enterprise credit, pension, equity transaction and leasing. MFIs should have a clear goal to reduce economic disparity in society instead of only financial inclusion. To achieve this goal, MFIs should be very clear on two counts:

- First, it should work for economic inclusion of marginalised sections of the society. In the Indian context, marginalised section means primarily Dalits, Muslims and Adivasis.
- Second, it should work on the basis of participatory finance with stress on interest prohibition. Moreover, it should work on self-sustained basis in utility model[3]

This document rather takes up from this point onwards where Sahulat Microfinance Society, an organization working on microfinance with an alternative approach, explores the viability of an alternative model to MFIs addressing the inherent identified issues within the existing models and approaches. The document has three broad sections. The first section introduces Sahulat Society and elaborates on its vision and approach towards Interest-free Microfinance. The second section is a case study of the Al Khair Cooperative Credit Society and its experimental intervention on Interest-free Microfinance. The last section is the report on the National Consultation to advocate this model followed by recommendations and suggestions by Prof. M.S. Swaminathan for its sustainability and viability.

[3] Stiglitz, Joseph; Joseph Stiglitz wants to bring banks back down to sub-state size; http://demandsideblog.blogspot.com/2009/12/joseph-stiglitz-wants-to-bring-banks.html

SECTION I

Advocacy for Alternative Model: *Sahulat Microfinance Society*

Sahulat Microfinance Society is a voluntary, non-political and non-profit social service organization committed to economic development of underprivileged and weaker sections of the society especially the Muslim community. Born out of the idea to upscale the Al-Khair's Intervention (this will be discussed in details in the next chapter), the society aims to provide Interest-free Microfinance (hereafter referred as IfMf) options for removing socio-economic disparities and achieving justice and equity for sections of society that face multiple marginalization. One of the mandates of Sahulat Society is to work essentially in the areas where 25% of the population is Muslim.

Established in 2010, its main function is to facilitate organizing and developing institutions, more particularly co-operatives, at the grass root level with the aim to provide IfMf to the people with whom it works. With this approach it aims to emerge as a complimentary model in microfinance towards alleviating poverty in Indian context. This approach is in sync with the recommendations of the Malegam Report which states that, "given the imperfect market in which the sector operates and the small size of individual loans, high transaction costs are unavoidable. However, when communities set up their own institutions, such as SHG federations and cooperatives the transaction costs are lower."

The society advocates and aims to establish microfinance units across the country on a model based on interest free Co-operative Framework and principles, targeted at those just above the subsistence level.

It was recognized that in order to achieve the ultimate goal of establishing IfMf units across the country, an in-depth understanding of the issues and challenges in the practical implementation would be necessary. Hence, a pilot at a micro level was done by the Al-Khair Co-operative Credit Society (hereafter referred to as AKCCS) in 8 towns of Bihar and Uttar Pradesh. The effective outcomes and impact of the intervention by AKCCS suggested that this could be implemented at different locations in India with the most poor and marginalised communities, with special focus on Muslim community.

Interest-free Microfinance

Another chief characteristic of Sahulat model of development is that it pleads for Interest-free finance. Although the International Monetary Fund (IMF) and the World Bank researches have already dispelled the myth of impracticability of interest-free model, Sahulat model also addresses the scepticism around the non-viability and non-feasibility of the idea.

On a theoretical plane, Interest free finance has established the much-talked-about linkages of social responsibility with the commercialisation of the financial sector. Interest free financial institutions have also demonstrated inherent strength and soundness, in the face of the recent massive economic crisis. Another importance of Interest-free model emanates from the fact that it addresses several issues of existing microfinance operations i.e. high rates of interest charged to the borrowers, multiple lending, and high handedness in loan recovery. Thus, interest-free microfinance prospers under co-operative mode with the trait of socially responsible financial activity.

Regarding its viability at the operational level, the resources coming from members may be used in a manner where profit or income earned through these deposits/investments is shared with the members/investors in a pre-agreed ratio. Thus interest free doesn't merely mean cost-free or return-free. The major activity of the IfMf institution on the asset side would be to finance income generating activities which could replenish the resources of the institution in various forms.

The Cooperative Framework

A Sub-Committee to the Malegam Committee recommended that a NBFC-MFI may be defined as, "A company (other than a company licensed under section 25 of the Companies Act, 1956) which provides financial services pre-dominantly to low-income borrowers with loans of small amounts, for short terms, on unsecured basis, mainly for income generating activities, with repayment schedules which are more frequent than those normally stipulated by commercial banks and which further conforms to the regulations specified in that behalf." The cooperative model advocated by Sahulat and experimented by the Al-Khair Credit Society abides by the above mentioned recommendations. The cooperative approach to development recognises the importance of internal factors which is extremely useful for microfinance as it generates loanable funds from within. By internally generating loanable funds, it is able to address chief criticism against microfinance institutions that their executives function as mere disbursement officers. Here the members

Members engaging in financial transactions at AKCCS' Phulwarisharif Branch

own the enterprise, take and implement decisions as well as benefit from the enterprise. Sahulat Microfinance Society has chosen to adopt cooperative approach for this reason besides its democratic functioning and peoples' participation.

Cooperative societies, being a member based and democratically managed legal entity, cater to various mutual economic needs of members covering production, finance, and marketing etc. This is, therefore, an ideal form of institution to undertake the task of interest free transaction with effective control of the members without causing any major threat to the smooth functioning of the system. It is a good fortune of co-operatives in the country that the Central Co-operative Societies Act (Multi-State Co-operative Societies Act 2002) as well as the liberal State Co-operative Societies Act does not contain any obligatory provision for payment of interest either on deposits mobilized from members or on loans given to borrowers. This is conducive to Interest free model.

SECTION II

Interest-free Microfinance Model on the ground: *AKCCS*

Initiated its work in the heart of Bihar state, in few pockets of Patna district, the trust owns the credit of creating an enabling environment for easy access of micro credit to the marginalized population (especially the Muslim population) through a cooperative model. Based on the principle of providing livelihood opportunities for the poor, Al-Khair facilitated the formalization of credit transactions without interest.

The Al-Khair charitable trust started its work in a few slums on education, health, income generation and general awareness. The population coverage during its intervention was around 3.50 lakhs. Besides, the hinterland villages linked to Al-Khair supported programmes which increased the number to around 50 thousand. But in terms of households, the outreach was around 65,000. While working on income generation, the trust made a few interventions like direct financial help, providing interest free loan and providing capital (rent) for landless labourers to acquire cultivable land. However the magnitude of help required particularly in the field of small credit turned out to be so enormous that Al-Khair on its own began to think of initiating an exclusive programme for small credit availability in its service area on interest free basis.

With its understanding of class and caste dynamics in the area, the trust conducted an exhaustive survey by the title "From Center to Periphery" in the Phulwari Shareef area to assess the financial needs of the poor. The findings from the study highlighted a few significant points given below.

- About 70% people were in specific need of credit support
- The small credits were short term credits. The stipulated duration for small amounts of Rs. 2,000 to 5,000 was four months, even for interest based lending.

Al-Khair's Profile

- The authorized share capital of the society is Rs. 1 Crore
- Paid up share capital in 2011 was around 18.97 lakhs.
- Membership in 2011 was 4145 and is open to all individual.
- Every member has to subscribe at least 10 shares.

- Unavailability of relatively big size credit to eighty percent (79.17%) demands clearly emerged as a critical gap.
- In about 10% households at least two parallel borrowings were found to operate involving the borrowers in a permanent debt-trap losing substantial earnings and assets in interest repayment.
- Almost all lending networks in the area were operated by people whose tough, insensitive and aggressive ways were well established in the society.
- Due to inadequate outreach of formal financial institutions in the area, 16% small borrowers conceded to be in perennial need of small credit losing substantial part of their earnings to money lenders.

Inadequate Access to Institutional Savings					
Commercial Banks	Co-operative Banks	Gramin Banks	Post Office	Other deposit Scheme	Non Banking
43.90%	2.43%	1.63%	2.43%	4.86%	4.88%

The Trust registered its interest free credit intervention as Al-Khair Co-operative Credit Society (AKCCS) under the Multi-State Cooperative Societies Act, 2002 (MSCS, 2002). AKCCS is a pioneering organisation for successfully implementing IfMf in 10 towns of Bihar and Uttar Pradesh and also for being the inspiration for Sahulat to upscale the model in different parts of India.

Structure and Working of AKCCS

AKCCS was established with certain basic features - Functioning under the cooperative mode adhering to 7 point cooperative principles; IfMf experiment within the economy of the poor people; Deliberate avoidance from external funding and minimizing the role of donation in Interest-free micro credit management; Experimenting the viability of IfMf with nominal service charge slab through cross subsidization from profit bearing transactions.

At the apex is the general body which consists of all the members of the cooperative except those who stand disqualified under the bye-laws of AKCCS. Below it is the Board of Directors who are elected by the members in the general body meeting from among themselves for a term of 5 years. The board meets for at least 4 times (quarterly) in a year and reviews the progress of AKCCS and amends the policies as required. The model functions

in a way to address the issues of multiple borrowing, ghost borrowing and the formation of vicious circle of debt trap.

There are three structures having three different kinds of roles and responsibilities given below.

- Structure for Policy Making: This consists of the Board of Directors and the Standing Committee at the base of the pyramid who report to the Chairperson who is accountable to the General Body.
- Structure for Execution of Policies: In the descending hierarchy are the Board of Directors, Managing Directors, Head Office, Branch Incharge and Staff Members.
- Structure for Loan Policy Disbursement: In the descending hierarchy are the Board of Directors, Loan and Admittance of Members Committee (LAMC) President, LAMC, Branch Incharge, Marketing Executive and Daily Collector and then the Loanee (members who demand loan).

Membership

There are two types of membership in the Society. One for the Ordinary members and another for the Nominal members.

Ordinary Members.

(i) Any person who resides within the area of operation of the Society, who genuinely needs the services provided by the Society and whose interest does not conflict with the interest of the Society.

Nominal / Associate Members.

(i) Society may, in the interest of promotion of its business, admit a person as nominal member or associate member on payment of fee of Rs. 100.

(ii) Provided that such members shall not be entitled to subscribe to the share capital of the Society.

(iii) They will not be allowed to have any interest in the management of the Society including right to vote, contest election as Director of the Board or participate in the General Body meetings of the Society.

Products and Services in AKCCS

The Society offers many types of products and a few services to enable the members to access them during their requirements both for consumption as well as business. Given below are the products in the Society.

(I) Share

Every member has to subscribe to at least ten shares. The face value of each share is Rupees 10 only. No member is allowed to hold more than one-fifth of the share capital.

(II) Deposit

Deposits are raised without any liability for payment of interest or other charges. There are two types of deposits-one is Call Deposit and the other Time Deposit.

- **Call Deposit :** It forms the backbone of the Society with 94% of total deposit. Usually those institutions which have provisions for micro deposits block these deposits. Thus when the depositors need cash they are unable to access it easily. The interest payment on such deposits is also not attractive. These issues have been addressed in this product to make the micro deposits available to the depositors.
- **Daily Deposits, Monthly Deposits and Special Daily Deposits:** Daily deposits are recurring account. It is being collected from the doorstep of depositors by the collectors of the society. Profile of recurring depositors is the underprivileged section of the society. A good number of them are those who earlier used to deposit their savings in interest based instrument.
- **Time Deposit:** There are two Time Deposit instruments i.e. Sahyog (Cooperation) and Earmarked Fund. A few others are are Amanat and Child account. Amanat account is like any saving account sans interest.

  Sahyog Account, launched in the initial stage of the society, targeted at well-off people, who can deposit maximum amount of Rs. 10,000 without

Deposits

- Deposits are raised without any liability for payment of interest.
- Two types of deposits – Call Deposits and Time Deposits
- Call deposits – unblocked amount, easily accessible and especially for underprivileged sections of the society. They form the base of the Cooperative society i.e. 94% of total deposits.
- Time Deposits – targeting the economically well-off people for deposits of larger amounts for longer periods. These help in providing loans to the needy members.

interest for a period of six months to three years. In the initial few months this helped in raising money for providing loan.

Earmarked Fund account is a special account which gives an opportunity to a depositor to willingly provide loan to any other person in need. For this the depositor deposits the loan amount in this account and identifies the person to be given loan. The Society assesses the situation of the identified person and proceeds accordingly. The Society also collects repayment of the loan during which the EMF account is blocked.

(III) Loans

Loans are granted to members only who are entitled to a loan amount of ten times their paid-up share capital. There are four loan instruments

- Demand Loan (DL)
- Short Term Business Loan (STBL)
- Mid Term Business Loan (MTBL)
- Cost Plus Finance (CPF)

The DL and STBL are the main compenents of the Society and CPF aims at making the Society viable.

Demand Loan is provided on one time processing fee which is variable on different amount slab. The DL is the cheapest and most popular form of loan extended by the Society. The maximum amount given under DL is Rs. 20,000. It can be used for multipurpose needs. Some members use this loan for their non-business or consumption needs like Abdul Razzaque and some others use it for their income generation or business needs. This decision lies with the members instead of the Society. DL formed 83% of the total loan disbursed in the year 2009.

Short Term Business Loan is provided to small businessmen on profit sharing basis. It is usually given to older members of the Society to start a short duration business not exceeding 3 months. The maximum amount provided is Rs. 50,000. 10-30% of the profit is shared by the Society on different loans.

Mid Term Business Loan is an effective option for businessmen to expand their business on a large scale. This is provided to older members for a duration exceeding 3 months. The maximum credit limit is Rs. 1 lakh. The profit or loss is shared in the ratio of 30:70 between the beneficiary and Al-Khair.

Cost Plus Finance is provided for consumer durables. The Society purchases goods on wholesale price and sells it on retail price to its members. The

difference between the two is earned as profit. The maximum amount varies from Rs. 35,000 - 40,000. The beneficiary needs to make a down payment of 25% within 6 months and the rest in regular installments.

AKCCS also offers services like draft making, issuing cash at par cheques and submitting telephone and electricity bills.

How loanable funds are generated?

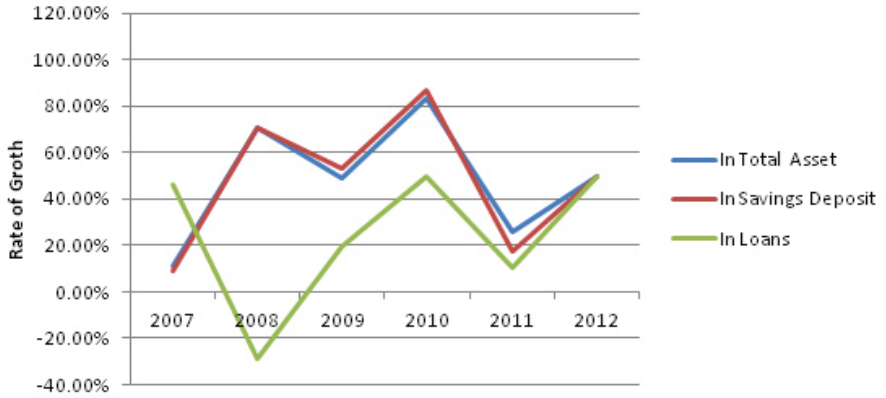
Al-Khair has primary relied on developing the habit of micro savings among the poor. It has been experienced that the poor can be motivated to deposit their micro savings if they are provided deposit facilities at their doorsteps which is secure and which can be withdrawn easily. Due to this the Call Deposit Scheme for small amount forms the highest i.e. 94% of the total deposits of the cooperative. It particularly helps the most marginalized section among the members, as it does not lock the amount. Out of these micro deposits, it is possible to generate interest free loanable funds to the extent of around 25% of total annual deposits, maintaining liquidity without delaying the withdrawal needs of depositors.

There are Time Deposits too which target bigger amounts deposited for longer periods without interest. There are two types of Time Deposits – Sahyog and Ear Marked. As the names suggests, the former is to make revolving funds available to other members and the latter is to ear mark loan in the name of a particular member as desired by the

Abdul Razzaque, 45 years old, resident of Neora village of Patna district, has been a member of Al-khair Cooperative since its inception in his village. He presently owns a tailoring shop in the village. He has been a recipient of the loan from the society, thrice. The first loan of Rs. 3000, in 2011, was taken for the purpose of marriage of a relative. This was repaid by him within six months. A year later, he got another loan of the same amount to purchase a new sewing machine for his shop which he repaid in 5 months. In 2013 he took a third demand loan of Rs. 5000 for getting his children admitted in the school and paying the school fees. He is in the process of repaying it.

depositor. The cooperative facilitates the availability of loans to the member as well as facilitates the process of repayment.

The graph below provides the comparison of the three key ratios (growth in total assets, in loans and in saving deposits) of AKCCS. The growth rate for all the years (except in 2008) has stayed proportionate. Loan and deposit growths have kept pace with the growth in total assets, thereby maintaining profitability (Evans 1997). This shows that AKCCS has the potential to grow and make profits in near future.



Years	2007	2008	2009	2010	2011	2012
In Total Asset	11.45%	70.99%	49.28%	83.65%	26.19%	49.52%
In Savings Deposit	9.30%	71.02%	53.00%	86.87%	17.13%	49.50%
In Loans	46.33%	-28.97%	19.39%	49.85%	10.33%	49.80%

Opportunities and Possibilities through AKCCS

For Muslims living in the area, the establishment of AKCCS has been a great opportunity. The economic situation of Muslims is worse than other Socio-Religious Communities (SRCs) and they are further excluded from the financial services and development processes.

To quote Justice Rajinder Sacchar Committee Report on Social, Economic and Educational Status of Muslim Community in India.

(i) The access of Muslims to bank credit, including the Public Sector Advances, is low and inadequate. The average size of credit is also meager and low compared with other SRCs both in Public Sector Banks and Private Sector

Banks. The position is similar with respect to finance from specialized institutions such as SIDBI and NABARD. The 2001 Census shows that the percentage of households availing banking facilities is much lower in villages where the share of Muslim population is high. One of the reasons for such an outcome could be non-availability of banking facilities in these villages. The financial exclusion of Muslims has far-reaching implications for their socio-economic and educational upliftment.[4]

(ii) The Committee reports that the access of Muslims to bank credit is low and inadequate. The average size of credit is low compared with other SRCs. The 2001 Census shows that the percentage of households availing banking facilities is much lower in villages with high Muslim population. Some banks have identified a number of Muslim areas as 'negative geographical zones' where bank credit and other facilitates are not easily provided. The average amount lent per account to Muslims is about half that to other Minorities, and one-third of "others". [5]

This is due to the two pronged problem - Banks not appropriately providing the targeted services to the poor Muslims and Muslims refraining from borrowing loans on interest due to religious obligation. As one of the principles of AKCCS is the provision of Interest free financial services, many Muslims are attracted to AKCCS, have opened up accounts and have borrowed money from the organization.

An internal study showed that Phulwari Shareef branch (oldest branch) of AKCCS has the highest market share among Muslims having the income level of Rs. 12,000 per month with 46% Muslims having their accounts in AKCCS followed by Sahara Microfinance whose share was 26%. An important reason for this is Call Deposit facility that AKCCS provides unlike any other bank or MFI in the area. This implied, for the founders of AKCCS, that Call Deposit has remained untapped when about 50% of India's GDP comes from the unorganized sector. This was seen as a very big market, which could be converted into Call Deposits.

Challenges for the organization

Initially the Cooperative Society faced the limitation of sources of funds for loans and operating costs. Revolving fund, deposits from members and service charges on Demand Loans helped to meet these requirements. The recent

[4] Social, Economic and Educational Status of Muslim Community of India (A Report);2006 Chapter VI; Page-136
[5] Summary of Sachar Committee Report; Priya Parker; 2006

A 55 year old business woman, Dhanmatia Devi has been a regular interest-free loan beneficiary of Al-Khair. Initially running a bangle store, eventually expanded her business to various other products. This was due to her association with the Al-Khair from where she took her first two Demand Loans of Rs. 3000 to establish her business in a fixed shop. Later she asked for the 'Mid Term Business Loan' of Al-khair, which is based on profit and loss shared in the ratio of 30:70 between beneficiary and Al-Khair. For this she proposed to invest Rs. 5000 in her shop during the marriage season and earn a profit of Rs. 1500 to 2000 after 4-6 months. She refunded the loan amount of Rs. 5000 after 4 months with Al-Khair's share of Rs. 500 (approx. 30% of profit), and earned a profit of Rs. 1700 for herself.

challenges regarding implementation and sustainability are non-literacy of members, non-availability of competent staff, non- availability and feasibility to bear the cost of competent staff, felt need to build capacities of the Board of Directors in order to maintain and sustain the liquidity and unmet requirements of corpus fund for future.

AKCCS has recently started investment portfolio which comprises Business Loan and Growth Fund. Growth Fund is micro-equity in which members can buy units of Rs. 500 each, and the money will then be invested in businesses with profit motive. The profit accrued will be shared with the investors in 70:30 ratio in which AKCCS's share will be 30%. This gives the more well-off members an opportunity to let their money grow just like in a mutual fund. The two investment portfolios were specifically designed to invest money in businesses to make profit from it which could be used to subsidize the service charge on DL (called as a "cross-subsidization stage") to cover up the losses incurred by AKCCS and then to make a reserve.

The founder member of AKCCS feels that it is the absence of the ethical line that has led conventional MFIs to fail in addressing the issue of poverty alleviation, adequately. In his words,

"The issue here is not of legal or illegal, it is of just or unjust. We need to change the frame of reference."

SECTION III

Innovative Possibilities: *National Consultation on IfMf*

The above mentioned pretext of Al-Khair Cooperative Credit Society and Sahulat Microfinance Society finds a place in the foundation stone of the alternative microfinance model that Sahulat argues for. After a consistent work on the experimentation of the model the society holds a position to open up this dialogue in the public realm among the eminent persons related to the concerned sector. Thus Sahulat organized a National level Consultation on the challenges and opportunities of Interest-free Microfinance Institutions through cooperative model. The purpose of the consultation was to elicit the views of eminent participants from various sectors and provide a platform to discuss the prospective challenges and opportunities within the concept.The consultation was a rich discourse where various ideas, potentials, challenges and concerns related to Interest-free Microfinance Model were tabled and discussed.

Highlights of the consultation

Prof. M.S. Swaminathan, the Father of Green Revolution and member of Rajya Sabha was the Key Note speaker in the consultation. Dr. Syeda Saiyidain Hameed, Member, Planning Commission, Government of India, was the Chief Guest of the evening. It was attended by other distinguished participants[6] who contributed multi-dimensional views on the Interest-free Microfinance model.

The deliberations in the consultation were spread over the aspects of historical as well as the present context of credit issues in India, differential requirements of credits, the potential of IfMf in the present context and cooperatives as implementing institutions for IfMf. The modus operandi of the model was suggested and the concerns and challenges regarding the IfMf cooperative societies were highlighted. The consultation concluded with a way forward to identify windows through which this model could be contextualized for specific regions and could be successfully implemented to alleviate poverty.

[6] The participants list is attached as Annexure I

The consultation began with the welcome address by **Mr. Arshad Ajmal,** the Chief Executive Officer and Vice President of Sahulat Microfinance Society. He introduced Sahulat as one of the facilitating agencies for Interest-free Microfinance through Cooperatives. He shared the vision and the long term goals of IfMf with the speakers as well as other participants.

Mr. Ajmal began his address with reference to a statement given by Prof. Swaminathan in Chennai in 2010 on the issue of farmer suicides in Andhra, in which he had said that this issue can be addressed with an approach similar to the approach of Islamic finance which does not charge interest on the amount that it lends. Interest-free Microfinance draws its linkages to the essence of this statement, said Mr. Ajmal and this consultation is a medium to delve deep into this concept with Prof. Swaminathan and Dr. Syeda Hameed together with other eminent and knowledgeable people who ranged from officials from the National Cooperative Union of India (NCUI), National Cooperative Development Corporation (NCDC), Railway Land and Development Authority (RL&DA), International Cooperative Alliance and corporate sector to IfMf activists, development economists, practitioners of IfMf and people from organisations working on microfinance like Basix.

The Context and Objectives of the Consultation

Dr. Ausaf Ahmad, Board Member, Sahulat Microfinance Society, introduced and sketched a contextual background of the origin of Al-Khair Co-operative Credit Society and Sahulat together with the idea of IfMf Cooperatives[7] and

[7] The paper presented by him is attached as Annexure II.

he shared the objectives of the National Consultation which aimed to focus on the following:

Objectives

- Steps to overcome the practical hurdles in registration process of IfMf Cooperative societies all over the country and mechanisms of suitable cooperative structure.
- Insights on the feasibility of interest free business model in the context of a plural and democratic society like India.
- Ways to achieve the objective of financial inclusion, socio-economic upliftment, self- employment and reduction of poverty through Interest free cooperative societies.
- Development of marketable, ethical and socially responsible products of IfMf with higher chances of sustainability in the Indian context and mechanism for improving the service quality.
- Methods of establishing and sustaining Interest free credit cooperative societies in India under the Central/State Acts. The stress is on overcoming hurdles involved in the process
- It has been noticed that in development of sciences and models, there is an inherent bias towards urban concentrations. Since most of the microfinance activities shall be concentrated in the rural areas, there is a need for a rural restatement of these theories.
- Most of the Western societies are singular societies. Their conversion into plural societies is a recent phenomenon. By comparison, Eastern societies have been plural societies since the time immemorial. India is a case in point. Therefore these theories mostly handle the situations arising out in singular societies. This aspect of economic theory also needs our attention.

Key note address

Professor M. S. Swaminathan addressed the participants in his key note speech by introducing the participants to the historical and present context of credit issues in India. He gave an overarching perspective on the relevance of the Interest-free Microfinance model in the present context and how it can be made operational.

But before that he congratulated Sahulat Microfinance Society for taking the initiative to organize such a consultation and create a platform for such a discussion. He said, "When I heard about this meeting I was quite excited because the country as a whole is searching for the methods by which the poor would have access to credits at affordable rates and especially the women because today there is a strong gender differentiation within the issue of farmers or poverty elimination." He substantiated this by sharing that very small percentage - about 1 or 2 % of NABARD's credit cards have been given to women farmers. This is mainly because they do not have *patta* (land ownership papers) for the land therefore the bank does not give them credit.

When the onion harvest had taken place the market had collapsed and two months later when the onion had passed the farmer's hands, prices rose. Same thing happened with cotton this time, as soon as the cotton moved past the farmers' hands, immediately export prices went up. "It is almost like what Muhammad Yunus said. If banks are not poor friendly, many of our practices are also not farmer friendly and that is the real difficulty in our country."

– Prof. Swaminathan

Being a member of Rajya Sabha, he was part of a discussion on the problems of drought affected areas mainly in Karnataka where both the kharif and rabi crops have failed, and similarly in Maharashtra. The overall analyses of the situation by the members, clearly articulated the cause that farmer stake loan for various purposes and the inability to repay it leads to social ostracism and other forms of harassment, due to which many of them finally commit suicides. This reiterates the fact that varied methods have to be devised and tried out by which the poor can have access to credit.

Prof. Swaminathan agreed with Dr. Ahmad that Interest free does not mean cost free or return free, else it will be 'philanthrophy rather than credit'.

“The need of credit will increase with the increasing problems of droughts and extreme weather events as an effect of climate change”, said Prof Swaminathan. In the light of this statement he raised a concern on the expectation with the people to take loan on high rates of interest and repay them on time. He said that even in colonial days the first requirement was to waiver off either the loan or the interest on the loan, or postpone the recovery period in the face of weather uncertainties or non-repayments. These have been the methods by which credit once given can be obtained or recovered but not immediately in the same year.

He was concerned that “If these practices do not continue, where will the Vidarbha farmers go?“ He said that the farmers invest very high amount of money in cotton, BT cotton and other crops, as even the seeds are very expensive. They do not have the coping capacity to meet the problems of crop failure due to drought, insects etc. Their limited coping capacity becomes the reason why they are not able to withstand the shocks of continuous pressure from the disbursers of non-institutional credit or loans.

Talking about the credit policy, Prof. Swaminathan highlighted the credit allocation in a bill recently prepared by Mr. Pranab Mukherjee and passed by Lok Sabha. In that Mr. Mukherjee allocated upto Rs 5, 75,000 crores for organized institutional agricultural credit during 2012-2013, which is 1 lakh crore more than the last year. Though the figure looks very impressive, Prof. Swaminathan said that when analysed, what trickles down to the farmers is a very small amount. The journey of this credit amount, stations at a number of Institutions related to the agricultural credit system like NABARD, RIDF (Road Infrastructure Development Fund), subsidies to fertilisers etc. before it reaches its destination - the farmers. All of these are put together in the bill as ‘agricultural credit’ out of which a very small amount is directly lent to farmers which is an issue. That is why more and more non-institutional credit becomes important particularly for poor farmers who lack access to resources.

With regards to the approach and methods for microfinance and microcredits Prof. Swaminathan quoted Muhammad Yunus, the pioneer of bank of credit - the Grameen Bank, and said, “The poor are not considered to be credit worthy by the banks and the banks are not people worthy.” Prof. Swaminathan said, “I think that was this conviction that led to setting up of Bangladesh Grameen Bank. The same is with Ela Bhatt in our country who started the Self Employed Women’s Association.”

He is of the opinion that there are various examples of a number of credit methods which have been adopted in India and which can be useful for cross-learning. He traced IfMf through the Islamic Banking which already

gives interest free loans based on the compassionate approach in Islam. And therefore their origin is from compassion and compassion is the root of the whole idea of Interest free loan. The Chinese too give Interest free loan to their farmers where they do not charge interest on the loan they give.

> He mentioned about the need for timely credit for agricultural purposes, for all farmers of drought affected areas of Karnataka and other states. "From experience I know the areas which have drought now will have heavy rains in a couple of months but farmers will not have seeds then, they would have already eaten the seeds or the seeds will not be available. Unless the seed banks are developed and the farmers get timely availability of inputs it is not possible for them to sustain."

In India the National Commission on Farmers chaired by Prof. Swaminathan, went into great details of the credit issue with the former Chairman of NABARD, who was also its member, and designed recommendations on bringing down the interest rates to around 4%. It came down to 7%, and later to 4%. He said that they did not propose 0%, but the consultation may show a way by which sustainable Interest-free microcredit can be operated. It has to be sustainable otherwise its objective will be lost. "I think Sahulat's association has already shown that it is possible to operate", he said.

Referring to the concept paper presented by Dr. Ahmad, he said cooperatives are structured on a principle of win-win for every member. There are no losers in a cooperative. If it is a successful cooperative everyone shall be a winner otherwise cooperatives also will not be sustainable.

Prof. Swaminathan said, in India the power of cooperative societies has been shown by Dr. Kurien and his colleagues at Anand. We are now world's largest milk producer. Where we were producing 20 million tons 35-40 years ago, this year we have produced 120 million tons of milk. He interestingly remarked, "I am a crops man, I know it is easier to increase yield of wheat but to get an increase in milk is a very big achievement and our target is 200 million tons of milk by 2020 which probably will be achieved."

The other area that requires a lot of credit and support is the horticulture which involves the perishable commodities like onion, tomato, egg or meat. The people require credit because they have to sell these commodities as soon as they are harvested. It is important to link horticulture and animal husbandry to credit for productive purposes. Thus the IfMf should encompass the needs of credit-linked market-driven enterprise on one hand and credit-linked insurance on the other hand.

On the need to link IfMf to the insurance system, he said that National Commission of Farmers has developed a very low cost insurance which combines compensation for crop loss as well as for health purposes. In the unorganized sector, the provision of old age pension shall also be included to help the people in the sector to survive. He thus emphasized the need to design the provisions of credit linked to the market and marketable products, to avoid the IfMf to get into purely credit recycling.

Revisiting the engagement with the issue of Microfinance, the world over, he gave examples of Microcredit Summits organized by the World Bank and contrasted it with how there have been many microfinance societies which have come to a standstill during the last one or two years.

"The World Bank largely under Ismail Serageldin, who was the Vice President then, had started Microcredit Summits with the help of Muhammad Yunus and Ela Bhatt. So there is a lot of interest in the world as a whole on microcredit", says Prof. Swaminathan

He thus stated that when microcredit becomes very exploitative due to high rates of interest like 25%, 30%, 35% then survival becomes a challenge. The increasing incidents of suicides as a result of the microfinance, by farmers of Andhra Pradesh, triggered a whole soul-searching on what is wrong with microfinance which was thought to be the answer to many problems.

Lot of ideas sprung up in the last one year and the Microfinance societies themselves have realized that purely borrowing of credit and then giving it at a higher rate to someone else won't solve the problem. It is only credit recycling. The credit will have to be used for a productive purpose as the Chinese do what they call the 'Township Village Enterprises'.

With reference to the Chinese model, Prof. Swaminathan said, when they started their 'agricultural revolution' or 'rural revolution' they had a 2 pronged strategy – a) to improve non-farm productivity and profitability by small farmers (more than 50% of their farmers have land around one hectare or less) and b) to improve opportunities for viable non-farm employment through the Township Village Enterprise. He said, "As far as I know it is the only country which has no landless labour, all have work. It is not only the question of land but some asset. It can be a land as an asset or a productive job as an asset. So it is an asset building approach and not purely providing loans. But how can we build assets? People do it through farm or non–farm employment. We must have methodology by which it can be done."

Prof. Swaminathan shared a vital information with the participants that 35 districts have been identified as Agrarian Distress Hotspots by the Government

which face agrarian distress due to drought with high rates of farmer suicides. He suggested that it would be useful to take up these 35 agrarian hotspots to start Interest-free Microfinance entities.

In a state like Kerala, 5 districts have been identified as Agrarian Hotspots – Kasaragod, Pallakad, Wayanad, Kuttanad and Iduki. Many other areas particularly tribal areas, tribal belts, districts in Orissa have been identified as agrarian hotspots.

Interest free would be useful because credit is the key as many people suffer because they do not have access to inputs. Today in the Karnataka model it is said that the earliest evidence of agrarian distress during drought is seen when the farmers start selling their cattle because livestock and livelihood are very closely related in our country. When they find that they can't maintain the animal they sell it. This is why cattle camps are important. Regarding methods of feeding, he said, fodder may not be available but all the agricultural residues can be used as fodder. "There are methods I mentioned in the Parliament today, where one can create a fodder bank consisting of agricultural residues quantified by urea and molas, it becomes complete food." He suggested, "When this whole movement evolves we can try it out in some of the agrarian hotspot areas where the present approaches of government are obviously not working. There are problems which are more deep seated. So it is important to try to link up with credit linked insurance on one hand and a sustainable Interest-free Microfinance on the other."

His speech concluded by emphasizing on the fact that even IfMf needs to be engendered. He gave an example of one of his centres in Vidarbha particularly working with wives (Mahila Kisans) of farmers who have committed suicide. There are also opportunities to help them with the credit insurance technologies and the whole market-driven approach. "I feel we need a farmer's divorce to end economic distress" said Prof. Swaminathan.

He said that though IfMf is not the only approach, it is certainly a very important approach to deal with the above mentioned problems. "I personally have no doubt about its viability and sustainability but one has to gain by experiences as many problems crop up with time because agriculture is the riskiest profession in the world. You may have rain, you may have flood, you may have pest or the market uncertainties."

He expressed his desire to listen to the experience rich opinions of the Chief Guest and the other speakers. He felt it is necessary to have many approaches to a problem."We can have different methods but the key point is whether it is the farmer or artisan or anyone who is taking the credit, their well-being,

their viability, their ability to repay the loan in the given period of time must be the bottom line. We cannot really help them individually, which means we need to provide some support services also."

He complemented Sahulat Society to initiate in the National Capital, a serious debate on viability or desirability of Interest-free Microfinance. And he stressed on the fact that "in this kind of an approach, one root has to be compassion and concern for the poor and that is what Muhammad Yunus also said that it is not purely a business transaction it has to be business for economic viability but nevertheless its success requires more than a business model. It requires feeling for fellow human being."

The Chief Guest's Address

Dr. Syeda Saiyedain Hameed, in her speech offered her remarks and observations on the points highlighted by Prof. Swaminathan and gave her views on the concept of IfMf.

She said it is extremely difficult to follow Prof. Swaminathan because his scope is so immense that he is well-suited for commenting on this very innovative model that is being proposed. She remarked that everything that Prof. Swaminathan spoke hopefully resonated with the audience as it resonated with her.

She congratulated Sahulat Microfinance Society for having taken this important initiative. Appreciating the word 'Sahulat' she expressed that everyone in their lives look for sahulat and the more underprivileged, the more deprived and the more marginalized one is, the lesser access one has to sahulat. She was glad that the society was called by this name as the very word inspires a lot of confidence.

She sadly expressed, "The agents of recovery bring all their wherewithal, the scene is so tragic because everything in the house goes. There is nothing, except a relentless pursuance of women or anybody for that matter but in particular the women who feels responsible, feels the burden. There is relentless pursuit of the women to recover the loan."

– Dr. Syeda Saiyidain Hameed

The other point that she made was to draw upon Prof. Swaminathan's remark on IfMf cooperatives where he talked about compassion in Islam. She says, "I am sure that everyone, sitting here can relate to the fact that it is from the compassionate understanding in Islam (also true for all religion), of the Prophet and the Fuqaha and all the great interpreters of Islam; that this idea of Interest-free Microfinance been taken to establish a model."

She was convinced that anytime anyone says anything which is very different from what prevails in our society, that person is immediately marginalized and it becomes very difficult to operate. But it is important to be able to express what one feels and what one can prove. The fact that Sahulat has been engaging with IfMf for a few years in an earlier avatar goes to prove that they are collecting their statistics, facts, hard data which could convince others of the viability of IfMf.

She shared that even after being the member of planning commission for 8 years, one problem which is completely and totally intractable is how to facilitate the poor to get access to finance. The fact is that it is very difficult for a poor tribal woman from backward districts like Bastar etc. to even cross the threshold of the bank, leave alone to get any kind of relief. On the other hand it has also been demonstrated by SEWA Bank in Ahmedabad that a women's self-owned institution can be viable.

Even women are so overburdened that, together with the farmers' suicide we have also become tragically aware of suicides by women farmers who have not been able to cope up with the burdens of microfinance.

She referred to the process of writing the XIth five year plan document, of which Dr. Devika Jain was also a part, when many Non-Governmental Organizations, especially the ones engaging with the issue of microfinance had suggested them that they should have a high level committee to enquire into the gaps in the policy on microfinance. They raised a pertinent question that when microfinance was supposed to be facilitating the poorest of the poor, then why the exorbitant rates of interests are driving the women are being to desperation because they cannot repay.

Agreeing to Dr. Swaminathan, about selling livestock and of relationship between livestock and livelihood, Syedaji shared that even children are sold; body parts, kidney and blood are sold too. "When one thinks of it the face of poverty becomes very horrific due to the burden of finance of having to repay the loans."

She expressed her anxiety to learn that even in a state like Kerala, 5 districts have been included in the agrarian hotspots. She felt that IfMf is an excellent idea and particularly in the districts which have been impacted by the naxal terror attacks. She said that this naxal movement has led to the formation of an Integrated Action Plan by the government in which certain amount of funding is made available for the development of the affected districts to get people into the paradigm of development while addressing at the same time the real problems of the tribal people - access to Jal, Jungle and Zameen.

She thinks that the agrarian hotspots that have been identified are potential areas where compassion can sink its roots. She also suggested that there are 90 Minority Concentrated Districts (MCDs) and in the XIIth plan there will be more minority concentrated districts where there is a scope of working with the IfMf model. She shared a concern that though Sahulat has selected these MCDs because these are dominated by Muslims, she thinks they can widen their target group as she says "a poor and an unfortunate human being,

whether it is a Muslim or a tribal or a Dalit or Scheduled Caste, Islam feels for every human being. The compassion is a universal compassion."

> She referred to the concept note by Dr. Ahmad in which there was a reference to the issue of credit being 'gender neutral'. She said, "I read the word gender neutral and I would just like to flag it because whenever it is the question of credit and we talk about farmer suicides in Vidarbha and we have known about farmer suicides in Orissa we have seen a lot of farmers suicides in Punjab, there is an increasing identification of women with poverty and women with being victims of microfinance which places an alternate burden on women. I think Sahulat has to highlight and profile the women who are at the very front and centre in this."

She felt that the work being done by Sahulat resonates with the sectors for which she works, as also mentioned by Mr. Ajmal while introducing her. She added, "I look after women and children and children are equally important because lots of children today in our country do child labour whether it is for carpet weaving, basket weaving, making fire crackers, working in chai shop, domestic help etc. I also look after the minority sector and health sector. I think health is one of the potent reasons why people become indebted. When it is a matter of health it is a matter of life and death and then informal credit becomes the last resort and all the informal engines of credit get going. I look after the handloom sector and handicraft sector and the handicraft artisans and handloom weavers are very much the face of element of poverty."

Dr. Syeda concluded by saying that Sahulat is experimenting with a very interesting model. She equally felt that it is definitely worth trying it out in some of the agrarian hotspots that Prof. Swaminathan referred to. Though Sahulat works in the Minority Concentrated Districts, they can try to expand the scope of their work. She remarked "It is very important to think out of the box and I think what Sahulat has done is to think out of the box. I wish you well."

Deliberations of distinguished Speakers

The Chief Guest's address was followed by deliberations of a few distinguished speakers who contributed their views to the idea of IfMf.

Mr. J.N.L Srivastava, Member, IFFCO Foundation seconded Prof. Swaminathan's articulation of 'Compassion with Sustainability' to be the hallmark of any microfinance initiative in order to ensure elimination of poverty and empowerment of women through IfMf. He appreciated the objective of the concept as well as highlighted a few concerns.

He emphasized that the enterprise that will be initiated by the poor as a result of accessing Interest free credit, should be viable. To ensure that, credit shall be accompanied with availability of training, technology and market.

To meet the demand for credit as well as to bear the inevitable costs (like the establishment cost) in the IfMf institution, it is important to think through the strategies to mobilise various kinds of resources and capital. Dependence on an external agency for this may further complicate the process. He also stated the importance of enumerating the mechanisms for profit sharing as well as management.

Referring to the existence of various Informal credit systems floating in the market, that take loan at 2% and lend it out at a higher rate of interest, he also felt the need to develop mechanisms to address these informal systems. He stressed on the importance of working out strategies for unforeseen issues before scaling up the model.

Dr. Devaki Jain, a feminist economist and a development activist, thanked Sahulat Society for inviting her to the Consultation. She traced the idea of Interest Free loan transactions as being part of women's culture in the form of thrift societies, long before the concept of microfinance had arrived.

She appreciated the idea of Sahulat to work with urban poor that usually lack attention of the development policies in comparison to the rural poor. At the same time she also brought to the notice that this needs to be cogitated more deeply as the Reserve Bank of India has an entire structure for Urban Cooperative Banks which presently are operating not better than family fiefdoms. In the face of this existing structure, it is important to look into whether the proposed IfMf Cooperative Societies will be legitimately recognised or not.

She also drew the attention of the participants towards an additional challenge to Cooperative Society with the introduction of a 'new cooperative bill' in the Parliament which will soon become an act. The bill proposes the cooperative societies to be slid from being liberal societies to department controlled cooperative societies. Many people, including Dr. Devaki Jain moved a letter

to the government in protest of this bill as they believed that these societies are vital to support self-sustenance. Thus she said it is important to follow up on this bill, to prevent Sahulat's dream of a free cooperative society from being shattered by a new act.

She specifically mentioned her appreciation for the idea of Sahulat Business Cooperation Groups (SBCGs) in the proposed framework of IfMf. She said that SBCGs had the potential to be viable with a lot of support from the existing government schemes. As an idea she threw, that even the SHGs can be potentially transformed or integrated into SBCGs. She thus requested the government officials present in the consultation, with a special mention to Prof. Swaminathan to look into the possibilities of such integration or adoption of the idea. She particularly mentioned that the idea of SBCGs as self-sustaining poverty alleviating institutions shall be incorporated in the chapter on urbanization in the XIIth 5 year plan. Finally she said that it is noteworthy that there will be a number of bottlenecks in registering the cooperative and Sahulat needs to chalk out appropriate strategies to deal with them.

The Regional Director, International Cooperative Alliance, **Dr. Chan Ho Choi** made a few critical and crucial points about the concept of Interest-free microfinance through cooperatives. His emphasis was on understanding the essentials for a cooperative and to give a framework based on which the IfMf model could be revisited and re-analysed for its feasibility and viability.

He felt that the IfMf model should provide certain business opportunities to the members. He believed in the feasibility and viability of the model but at the same time also laid a great emphasis on the clarity of its objectives. Wherein he said that if the Interest free model aims to establish a cooperative then it should be linked to certain business rather than just for the disbursement of loans. That business, he underlined as one of the mandates of cooperatives, should be a business by a group of people rather than an individual.

Based on his rich and varied experience with Cooperatives he remarked that generally the business, enterprise or entity shall be equally shared by its members so that they can govern and manage it. Giving a flavor of the fundamental belief of cooperatives, Dr. Choi said that every person has the ability to create or produce something for which that person may require capital or credit. Thus he stated that credit should be provided based on the demand for it to produce something. That can be useful for ensuring its viability and returns.

Regarding the management of profits, he opined that every cooperative has surplus capital earned due to bulk purchasing or bulk lending, even if it

does not earn profit per se. The cooperatives are supposed to locate certain portion of their surplus as reserve for delinquent situations. He made a very fundamental point that the members of the cooperatives must be rewarded for the investment made by them where the surplus could be used for their training and capacity building.

His concluding remark read that though not a very smooth road, a careful and strategic approach shall help to sustain the model. He welcomed the initiative as a significant one in this 'International year of Cooperatives'.

Dr. Chitra Kasana, Vice Dean of Student Affairs, Symbiosis International University, gave her views on the viability of Interest-free microfinance which she explained by analysing money as a 'medium of exchange' as well as 'money as a product'.

Money as a medium of exchange, she said, is linked to the issue of value and fluctuations in the value which gives rise to the concept of interest. She also mentioned that the value is also dependent on the fiat currency that does not remain constant and is the medium of exchange worldwide. If money is understood as a product in the model then, she articulates, that it becomes very easy to have IfMf model as buying and selling of products involves profit which in this case becomes acceptable. Therefore in this case profit will not be associated as something that will exploit the masses in terms of interest. It will just be, as a matter of fact, a give and take relationship, which will help to sustain this model.

According to Dr. Kasana, interest becomes an integrated factor in the loanable funds. She questioned the idea of using surplus to create surplus to the extent that everyone associated with the IfMf model can come above subsistence level.

She also raised a pertinent question that mostly people save to get interest on their savings. So if they want interest then the borrower needs to pay high rate of interest and thus the borrower gets trapped in the vicious circle of credit. She also suggested looking into the possibility of IfMf model to be able to divert people in disguised unemployment towards non-farm activities and make them more productive.

Dr. B. K. Sahu, Assistant Professor, Indian Institute of Foreign Trade shared his concern about the concept of IfMf. Based on a study conducted by him on microfinance and its operations in India, he said that there exists extreme scarcity of credit or limited access to credit irrespective of its source - formal or informal. People do anything irrespective of the terms and conditions of the credit to meet their needs.

With such a high demand, he suggested, that it is important to figure out as to what will be the terms and conditions on the Interest free loan. He also essentially linked provision for credit to the creation of credit absorption capacity in order to enhance credit utilization. He articulated another issue that when credit is introduced without insurance, the possibility of its misuse and non-repayment increases by more than 50 percent. Thus he proposed the idea of linking credit with Insurance which has worked well in the states of Kerala, Karnataka and Tamil Nadu.

Addressing the stress of repayment, he said the idea of 'group collateral' partly works with the groups that are dynamic but where the group is not dynamic or homogenous, tremendous stress comes on individual members to repay. He asserted on the need to have very specific group as well as region specific strategies in order to achieve the objective of IfMf cooperative societies.

Mr. Fuad Mahmood, IRAS, RL&DA, spoke mainly on the idea of Interest free model to enable the poor people to break out of the vicious circle of credit. At the same time he also raises a concern on the concept of 'Interest free' which according to him loses on the sincerity and discipline of the borrower's perception to repay. He advocated for a credit on a moderate rate of interest that will ensure discipline and sincerity to repay.

Mr. G.K. Gangopadhyay, Chief Director, NCDC, shared that one of the NCDC's major work is to assist infrastructural development. Since Interest free credit needs to be associated with other business enterprises which can cross subsidise the interest free loaning activity. These business enterprises could be linked to NCDC for their Infrastructural development. He assured that NCDC will assist these enterprises.

Dr. Naveen Anand, Microfinance Community Solution Exchange, UNDP, responded to the proposed model as being a wonderful initiative because he felt it will create a culture of thought among the poor people that there can be interest free loans as well. He also cited a few examples in the world of IfMf which prove that it is feasible. He emphasized that it is necessary to have a portfolio of activities listed down on order to ensure ways in which IfMf will be subsidized. He suggested a few activities which could be part of the portfolio.

The first thing, he suggested, shall be savings – not only mandatory but also voluntary savings, which otherwise do not form part of any of the mandates of Microfinance institutions. He gave Micro-leasing as another emerging subject for very poor people where they can have some productive asset together, with minimized risks. Micro-leasing will be the future in this direction, feels Dr. Anand.

Social security, insurance and remittances shall also form part of the portfolio. He suggested that these cooperatives can also function as counseling centers wherein government and NABARD both can provide some assistance. With regards to Interest Free loans, heterogeneity in the institution can be useful, he suggested.

> "There are many examples like in Japan where de-mutualisation of cooperatives have been talked wherein differential powers of governance or differential membership has been taken into account. In this, the cooperative provides money to many people but not all of them become part of its governance. They can rather be just a nominal or associate member which will help self-reliant cooperatives." – says Dr. Naveen Anand

Dr. Dinesh, CEO, NCUI spoke about the mass perception of anything that is free especially if it is Interest free credit, it is not taken seriously. He felt that due to lack of seriousness it becomes difficult to ensure repayment.

At the same time he also offered his suggestions to deal with the above. He suggested that there could be a minimal amount of interest on the credit provided, to foster discipline and seriousness. In both the cases, whether credit is provided with or without interest, the borrowers shall be trained to utilize the credit and gain profit. According to him this approach will have a two pronged advantage – 1) Entrepreneurship Development and 2) Interest free credit with assured repayment. This will ensure that they take the loan, repay it and do not take it again.

Mr. L.D. Ahuja, Consultant, NCUI also articulated his concern about the ways in which the institution will bear the minimum essential cost. He tabled the issue of developing concrete provisions for management and sharing of profit or surplus in the institution. On the other hand he also felt the inevitable need to adopt such a model in the face of existing credit issues. Thus he suggested dovetailing of the model with the government schemes and utilization of existing cooperative structures to economise the cost.

He also mentioned that the Indian Parliament has passed a bill to make cooperative formation a Fundamental Right. This also means that the efficiency of operations needs to ensured. So a dialogue with stakeholders will be important in this regard, as suggested by him.

Ms. Punam, Freelance Consultant, Community Based Organisations, turned the lens of the camera to focus on the same issue from a different angle – the standpoint of the community. She felt that it is also worth taking a look at our expectations from the community with regard to the IfMf. She underlined

the fact that the success of the model is possible only if both hands meet i.e where the appropriate strategies are worked out for the sustainability of the IfMf by Sahulat as well as sufficient rapport and trust is built in the community so that they take this model forward.

She reiterated the fact that cooperatives being the peoples' institution shall not lose their essence and hence shall be owned by the members. Since there are a lot of experience of fall outs and crises that MFI's have faced in the past, it is important to develop some code of conduct and ethics before establishing these IfMf societies. She also suggested to think through the backward-forward linkages to identify the lacunae in the plan which can be plugged in eventually.

Mr. Shashi Bhushan, General Manager, Naandi Foundation, Hyderabad elaborated the challenges that Al-Khair Co-operative Credit Society already faced during its pilot project on IfMf.

He stressed on the fact that among poor people Muslims are one of the most disadvantaged and distinct sections. Their credit needs are slightly different from other poor groups as they also carry the burden of certain biases against them which push them further to the peripheries of the society. He thus tried to bring to the notice that in the proposed institutional set up, a distinct poverty group requires a distinct attention in terms of provisions and strategies.

He shared a sharp observation that there exists a stark contrast in the policies of the government where on one hand it proposes the bill, for cooperatives to be department controlled and on the other hand another bill to make Right to form cooperatives as the Fundamental Right. He identified that the challenge to establish IfMf cooperative societies in 90 districts, in the face of such contrasting policies, might be more stringent.

Dr. Veena Nabar, former Chief Economist NCDC and Consultant, shared her views on bringing the Right to form cooperatives under the Fundamental Right. She said it is a useful decision since previously the people convicted as cooperative, went under state jurisdiction as cooperative is a state subject. They lost their Fundamental Right. So what was needed to be done was to have some kind of definition of cooperative for which it was necessary to put it in the Fundamental Right. Through a constitutional amendment, Article 43B was added in part IV of the constitution as Directive principle of State Policy for voluntary formation of cooperative societies. This constitutional amendment, she informed, will allow people to approach the legal authority with their fundamental rights.

She said, “there is much hope now with this amendment.”Dr. Nabar could not see a reason why the central government wants to push cooperatives into hands of the Secretary, Cooperative Department. She calls the proposed amendment as retrogressive since it gives power back to the central registrar.

She highlighted some essentialities before replicating the IfMf model like multiple designs should be worked out for models for different areas or state. She also raised a concern as to why working out a strategy is important. She said, because many producer companies which were supposed to take care of the problems in the cooperatives act, faced scarcity of resources due to internal resource raising, as reported by NABARD. Therefore she strongly felt this that the proposed model should be an integrated model which should be able to address the problem of scarcity of resources. That she felt, should be the strength of this model.

Mr. S.K. Tucker, Chief Director, NCDC said that the cooperatives are also revisiting and changing their model. He emphasized the need to address the ‘element of efficiency’ which is one of the key elements in IfMf and which is presently at low ebb in cooperatives. He submitted that the professionalism in such models is very low which reduces efficiency.

He pointed to another existing government institutional model called Primary Agricultural Cooperatives. They exist in a large number, almost 90,000, all over the country and were supposed to function as credit windows. They earned a margin of 2-3% under the re-imbursement financing scheme of NABARD, which affected their viability. It was suggested that these credit lending Institutions should become multipurpose to survive i.e. they should get into marketing, crop subsidization, consumer lending, agro-processing to increase their margins.

He raised a pertinent question on the ways to deal with non-repayments which he said, should be looked into before starting to replicate the model. He finally suggested that building some kind of cost, might bring in efficiency in repayments.

Mr. Anoop Kaul from BASIX spoke on the basis of his experience with institutional Microfinance. He gave another standpoint to the idea of IfMf, and suggested that it should rather be called ‘participatory finance’ which better describes the objective of the model proposed. He explained the scope of the word ‘participatory’ to mean much more than just finance. It essentially requires provisions of building entrepreneurial skills of the borrowers earn profits on the microenterprises and ensure repayments. He also clarified that

Microfinance does not just mean credit but also includes pension, remittances etc. based on which he said that calling it Interest-free 'Microfinance' might not be appropriate since the other things are not being provided in interest free in the proposed model.

He shared about an exercise that had been done to analyse around 400 enterprises taken up by the poor people. The analysis showed that the internal rate of return for these enterprises was about 35% to 40% which is encouraging with respect to the viability of microenterprises.

He spoke about increasing the scope of the proposed institutional model from being providers of seed capital for a microenterprise to being facilitators in making the microenterprise a success. Thus he suggested a change of role of the IfMf from being transactional (where they give money and wait for returns to come) to becoming transformational (to make the poor people understand the economic activity they are getting into, to understand financial discipline to capitalize the money and get more returns on it). Since Sahulat is a cooperative with intellectual capital it will be easy for them to provide both credit as well as intellectual capital to the poor.

After the profound discussion and inputs by different speakers on the concept of IfMf, Prof. Swaminathan culled out the vital points from the discussion and responded with his own suggestions and recommendations on them. He also sketched a framework of strategies and essential elements for Sahulat's proposed model, to facilitate the host organization in its endeavor to upscale the intervention of Interest-free Microfinance through cooperatives.

Suggestions and Recommendations by Prof. Swaminathan

Encompassing the various critical points made by the speakers, Prof. Swaminathan, enunciated the importance of initiating work in some of the agrarian hotspot districts. He suggested that organisations like Sahulat shall select few of these districts where there is urgent need for a different form of credit which will be sustainable and which will not aggravate the problems of the poor.

He does not forget to mention that with the available experience in this direction, Sahulat shall also be benefitted in its way forward, by a few cardinal points that came up in the presentations by speakers regarding the following aspects.

Strategy for sustainability

Getting to more concrete steps ahead, Prof. Swaminathan identified the need to prepare the ground before upscaling and implementing IfMf models in other areas. He said it is important to think through, the kind of strategies that could be designed in order to make it sustainable, economically viable and self-replicating model instead of working in the philanthropy mode.

Governance and Management

Prof. Swaminathan referred to Dr. Choi's speech in which he mentioned many aspects of the cooperative model of governance with shared membership and the elected office bearers. He also emphasized that some professional management shall also be incorporated in the functioning of the cooperative, in order to ensure efficiency.

Training and Capacity Building

Prof. Swaminathan highlighted the importance of training and capacity building, as being essential to the viability of the model. He said it is important to orient the members with the culture and philosophy of IfMf as people may have difficulties in absorbing the concept. They should also be trained on the ways in which resources will be mobilized in terms of finance as well as other capital to make it sustainable. The capacities shall be built on the basis of experience and successful models.

For that he gave the idea of either to develop training and capacity building centres or to integrate this activity with the Krishi Vigyaan Kendras or other existing institutions or infrastructure and use them as training centres.

Engendering IfMf

Spotting gender dimension as a key thread in the fabric of the IfMf initiative, Prof. Swaminathan said that women have very specific needs. So it is important to mainstream the gender dimension to be able to deal with a number of issues that will crop up during the implementation.

Widening the role and scope of IfMf

He expressed his interest in the Idea floated by Mr. Anoop Kaul, about renaming the intervention as 'participatory finance' instead of 'Interest free'. He felt the former widens the scope of Microfinance and assigns it a more transformational role – transforming people from being hopeless to becoming hopeful, which he said, is most important as most of the people have lost hope due to maladies of credit and indebtedness. Together with this, he felt, revival of the multiple support systems are also required.

He also shared some exemplary ideas both at policy level as well as at the implementation level from all over the world which can provide learning ground to concretely analyse the pros and cons of the proposed concept. One such example was the Brazilian model of 'Zero Hunger Programme' (Programa Fome Zero), a series of hunger initiatives aimed at eliminating hunger in Brazil.

In his concluding remark he thanked Sahulat for giving him the opportunity to be part of the consultation. He suggested to follow it up with 3-4 districts level seminars in the districts which are more vulnerable like Koraput, naxal affected district etc. With a hopeful message of planning the next step to select a few districts and design feasible and sustainable strategies based on the inputs in the consultation, he thanked all the participants.

The consultation concluded with the vote of thanks by the **H. Abdur Raqueeb,** General Secretary, Indian Centre for Islamic Finance. He summarized the discussions and suggestions and agreed with Dr. Syeda Hameed that this model resulted due to thinking out of the box, and it is eventually gaining grounds all over the world especially in 2010. He also shared his hope with the speakers and the participants that some of the issues raised here that require policy advocacy, shall be taken up by the government. He summed up with a wish that,

> *"Microfinance had started with a social mission but eventually got confined to commercial activities, now it has to come back to basics."*

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Annexure II

NATIONAL CONSULTATION ON

INTEREST-FREE MICROFINANCE THROUGH CO-OPERATIVES:
CHALLENGES AND OPPORTUNITIES

8 MAY 2012, India International Centre, NEW DELHI

ISSUES FOR DISCUSSION

by
Dr Ausaf Ahmad

Dear Prof. M. S. Swaminathan, Madam Syeda Saiyidain Hameed, Ladies and Gentlemen:

I stand before you as a member of the Governing body of Sahulat Microfinance Society. My pleasant duty is to welcome you all to this National Consultation Meeting on the Challenges and Opportunities before Interest-free Microfinance through co-operative societies. Why did we pull you out from the comforts of your homes on this evening of Delhi Summer? We must explain what we expect from you. This shall be helpful to put the discussions within a framework.

We have come here with an open mind. We have come here to listen, learn and seek guidance from you. We have not come here to preach. However, by the way of introduction to the uninitiated, a few words are in order.

First of all, I must introduce Sahulat Microfinance Society, the organization which is our host this evening. Sahulat Microfinance Society was established in 2010 as a voluntary, non-political, and non-profit social service organization. This was conceptualised in a meeting of concerned professionals, activists and intellectuals who felt that some work needs to be done to address the increasing social and economic inequalities of Indian society and high levels of social, economic and educational disparities. These trends cannot be left uncontrolled and unchecked to play havocs with our social organization. Consequently, Sahulat Microfinance Society was born. It is not hidden from you that all microfinance movements recognise the fact that ability to develop is not lacking amongst the poor, unfortunate and marginalised people. What they lack is access to financial institutions. The theory was tested on a limited scale by an institution called Al-Khair Co-operative Credit Society in 8 towns of Bihar and Uttar Pradesh. Impressed by the success story of Al-Khair Co-operative Credit Society, it was felt that scale of this experiment should be enlarged and tested at different locations in India. Accordingly, the main function of Sahulat Microfinance Society has been, to facilitate in organizing and developing institutions at grass root level, particularly in co-operative sector, with the aim to provide Interest-free Microfinance to socially, economically and educationally marginalized sections of the Indian society in order to reduce the growing socio-economic disparities.

This strategy of development raises certain pertinent questions. The main among them are - Why Co-operative sector? Why interest free? Why microfinance? It shall be my endeavour to provide some pointers to these questions in the time that is available to me.

The Co-operative Framework

By now notoriously famous divergent views of development theorists seem to agree at least on one point, that development cannot be triggered by imposing it from outside. It has to be generated from within. Co-operative approach to development has supremacy over trickledown theory of development. It recognises the importance of internal factors. It is extremely useful for microfinance as it generates loanable funds from within. By internally generating loanable funds, it is able to address chief criticism

against microfinance institutions that their executives function as mere disbursement officers. Sahulat Microfinance Society has chosen to adopt Co-operative approach for this reason besides its democratic functioning and peoples' participation. Sahulat believes that objection of functioning as disbursement officers cannot be levied against its functionaries as loanable funds will be generated from within. If they do not generate loanable funds (deposits) there will be nothing to distribute.

It is a good fortune of Co-operatives in the country that the Central Co-operative Societies Act (Multi-State Co-operative Societies Act 2002) as well as the Liberal State Co-operative Societies Acts in 10 states does not contain any obligatory provision for payment of interest either on deposits mobilized from members or on loans given to borrowers.

Co-operative societies, being the member based and democratically managed legal entity, cater to various mutual economic needs of members like production, finance, marketing etc. This is, therefore, an ideal form of institution to undertake the task of interest free transaction with effective control on the members and without causing any major threat to the smooth functioning of the system. Al-Khair has successfully implemented this model for over a decade, though at a modest scale in just two States. Before Sahulat is able to compile its own data. This data generated by Al- Khair can now profitably be used by Sahulat to experience the micro finance transactions in other states through its affiliated cooperatives, of course taking into consideration of various factors of socio-economic conditions prevalent in those states.

Interest-free Credit

Another chief characteristic of Sahulat model of development is that it pleads for interest free finance.

There exists some scepticism among Indian policymakers, academia, bankers and financial planners regarding interest free. Their main argument is that an interest free system is non-viable and non-feasible on the ground. However, there are ample evidences available now to demonstrate the success of interest-free model not only in India but across the globe. By a click of the mouse one can find about hundreds of interest-free institutions working in different environments all over the world. IMF and World Bank researches have dispelled the myth of impracticability of interest-free model beyond any doubt.

On a theoretical plane, interest free finance has established the much-talked-about link of the real sector with the financial sector. No production, No Finance. It could mean as simple as that. On the contrary, much of the contemporary financial system is based upon a thin air which is bound to develop into a bubble. And, all bubbles are destined to burst. The burst of the International financial system developed into global financial crisis. It was not very long ago when several financial giants collapsed. It is to the credit to interest free financial institutions that they could come unscathed from the turmoil. It is not to deny that some of them had to brave a sharp decline in their profit caused by global weakness of aggregate demand. In short, interest free financial institutions have demonstrated inherent strength and soundness.

Another importance of Interest-free model emanates from the fact that microfinance operations have been criticised for their high rates of interest charged to the borrowers (ranging between 24-36% in normal circumstances), multiple lending (too many MFIs chasing same borrowers), and high handedness in loan recovery (snatching away of roof, animal etc.). All these problems are not likely to occur in the model that Sahulat pleads for its affiliated cooperatives.

Suicides of Farmers and Rural Credit

There are ample statistical evidences to suggest that incidence of suicides amongst the farmers is on the rise. It has been recorded that over 2.5 lakh (quarter a million) farmers have committed suicide in the last 13 years. Deshmukh reports the details of these figures thus:

> *"According to P. Sainath, the number of farmers who have committed suicide since 1997 to 2005 was 1,22,823 and all India level was 1,99,132. Professor Nagraj proved that farmers suicide rate was 12.9 in the period between 1997and 2005 and one farmer commits suicide every 53 minutes in India."*[8]

Deshmukh has listed 18 reasons amongst the possible causes for the suicides. Financial indebtedness occupied third rank among these reasons but it does not need much effort to observe the havoc created due to financial indebtedness. Similarly, the role played by interest could never be undermined. In case of default, interest keeps on adding to the principal and in a few years grows enough to induce the borrower to take the extreme step. Hence, logic demands that an alternative system must be explored. We must decide whether finance is for people or people are for finance.

What is the way out? To my mind, reduction in interest rate cannot be a solution, as it may only delay the inevitable rather than solving the problem. The only possible solution is adoption of an interest–free model. A legitimate question in this context is about the viability of the system. I have alluded to this aspect in the above paragraph and I am prepared to discuss further with the participants here. For the sake of further exposition I may take a hypothetical example of an Interest-free Microfinance Institution. On the liability side of the balance sheet, mainly two types of deposit will form the bulk i.e. Demand deposits and Term deposits. The demand deposits come to the institution mainly for convenience and safety reasons. The same is true even for contemporary banking institutions where the prime motive is not of earning interest. The issue of term deposits is rather trickier. These deposits are motivated by a desire to earn an income out of it. Since the interest-free institution cannot offer interest on this saving the resources coming through such deposits may be used in a manner where profit or income earned through these deposits is shared with the depositors in a pre-agreed ratio. I may remind here that interest-free doesn't merely mean cost-free or return-free.

[8] P.V. Deshmukh, "Farmers' Suicide in India", Indian Streams Research Journal, Vol.1, No.1 February, 2011. p.114.

On the asset side of the balance sheet, one may note that borrowers' financial needs may be categorised into two. Additional resources may be needed to meet a contingency caused by a sudden illness, marriage, festivals and other contingency needs. These may require the funds which need not be returned. The poor may need outright grants to meet such a situation. The microfinance institutions may not have resources to disburse funds as grants but they could give interest-free loans (Qard Hasan) where only the principal amount is payable. The microfinance institution will enter into a contract with the borrower requiring him to pay the principal as per the agreed ratio. To mitigate the risk of delinquency or default, the microfinance institution may demand some sureties or personal guarantees. A reserve will be built over period to balance the losses incurred out of genuine difficulties faced by the member such as death or loss of livelihood. On the other hand delinquent borrower could be tackled through recourse to his surety or guarantee. In any case the lending organisation cannot charge beyond the principal amount lent.

The major activity of the Interest-free Microfinance Institution on the asset side would be to finance income generating activities. These could come in various forms. This may take the form of mark-up sale, profit sharing or profit and loss sharing. The profit, which comes to the co-operative, will be shared between the institution and depositors in a pre-agreed ratio.

CONSULTATION

This National Consultation is organised with the purpose to share our concerns and policy prescriptions and learn from your experiences. We hope to receive your full cooperation in this noble cause of helping the poor in reducing their burden of life and improving their income generation capabilities. Sahulat Microfinance Society is committed to liaising and advocacy towards formulation of a National Policy conducive to Interest-free Microfinance in India. In particular it aims to focus on:

- Steps to overcome the practical hurdles in registration process of Interest-free Microfinance Co-operative societies all over the country.
- Mechanisms of suitable co-operative structure based on the concept of Interest-free Microfinance.
- Insights on the feasibility of interest-free business model in the context of a multiple and democratic society like India.
- Ways to achieve the objectives of financial inclusion, socio-economic upliftment, self- employment and reduction of poverty through Interest-free co-operative societies.
- Development of marketable, ethical and socially responsible products of Interest-free microfinance with higher chances of sustainability in Indian context and mechanisms for improving the service quality.
- Methods of establishing and sustaining Interest-free credit co-operative societies in India under the Central/State Acts. The stress is on overcoming hurdles involved in the process.

- It has been noticed that in development of sciences and models, there is an inherent bias towards urban concentrations. Since most of the microfinance activities shall be concentrated in the rural areas, there is a need for a rural restatement of these theories.
- Most of the Western societies are singular societies. Their conversion into plural societies is a recent phenomenon. By comparison, Eastern societies have been plural societies since the time immemorial. India is a case in point. Therefore these theories mostly handle the situations arising out in singular societies. This aspect of economic theory also needs our attention.

These are a few points. You may react on these as well as on others which may hit your fancy. With these words, on my own behalf as well as on behalf of Sahulat Microfinance Society, I welcome you all, once again to this discussion meeting. I wish you all a very pleasant and productive evening.

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