p-ISSN: 2348-6848
e-ISSN: 2348-795X
Volume 04 Issue 07
June 2017

Micro Finance and Development Finance in India

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ABSTRACT

The term microfinance is widely used to refer to institutions governing savings, credit, insurance and monetary payments by relatively poor people, including those regulated by both official laws and informal norms. Analysis of microfinance is widely framed as a purely micro issue, centered on the motivation and behavior of specific users and providers. However, such analysis is almost invariably located - whether explicitly or implicitly - in a wider view of how the state, markets and society institute poverty. In India as elsewhere, for example, private microfinance organizations is viewed positively as a force for promoting financial inclusion by "making markets work for the poor"; and at the same time viewed negatively as a smokescreen behind which the state can retreat from a 'social banking' strategy of mobilizing much larger resources to challenge pervasive and chronic indebtedness.

Microfinance has been able to serve the poorest of the poor across the world. It is believed that microfinance has been responsible for poverty elevation, promote economic development, generate employment, propel saving and growth and support micro-business and micro-entrepreneurs. The only disturbing factor in micro-financing is the element of 'interest'. If only interest could be eliminated, it will bring down the burden on the borrower to that extend. The saving that the borrower could make can add to his 'savings' and be more fruitful. The concept of 'interest free micro finance' is an attempt towards this idea. There are many hurdles and oppositions in implementing the idea in practice, but that is bound to be, as it is always with something new before it is accepted. Slowly but steadily the idea will grow, this is the beginning.

Keywords: Microfinance; Interest Free Micro-Finance; Sustainability

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e-ISSN: 2348-795X
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INTRODUCTION

"There are but two powers in the world, the sword and the mind. In the long run the sword is always beaten by the mind. " This is very true; the only necessity is to apply the mind in the right direction towards fulfilling not only individual dreams but the dreams of the masses. Dr. Muhammad Yunus, microcredit pioneer states that "despite having being unsure if my model of microfinance would work and be successful or not, I was never afraid of failure. I jumped at what I felt was right. The whole world was telling me that it won't work. It's a utopian idea; it won't survive long. But I didn't listen to them. I listened to myself. That I think is very important. And I stayed on my course." Dr. Yunus did not give-up and went on to establish the now famous Grameen Bank of Bangaladesh which is replicated the world over. Concept of Interest free Microfinance: Microfinance probably started long back then recorded history. In terms of the present era it can be traced back to 1848 in Germany and from there it spread across the European countries, North America, Indonesia and Latin America. It was in 1970 that it was resurrected and took roots in the Asian Continent in Bangladesh under the pioneering 'banker to the poor' Prof. Muhammad Yunus and from there it spread across the world to be embraced by one and all. In 2001 yet another person reinvented the concept of microfinance. Dr. Amjad Saqib founder of the Akhuwat an interest free lending institution in Pakistan was set-up with a small lending of Pk. Rs. 10000/ to widowed woman with guarantee from a group she formed under his advice. The idea is now Sai Om Journal of Commerce & Management A Peer Reviewed National Journal VOL. 1, ISSUE 6 (June 2014) 2 Online ISSN 2347-7563 a running enterprise which has disbursed PKR 5.3 billion to 350000 poor families in Pakistan. The late Dr. Malcolm Harper, a veteran in the field of microenterprises and microfinance promotion has said, "Akhuwat was doing for conventional microfinance what Professor Muhammad Yunus had done for conventional banking in the late 1970s it was showing that things could be done differently, and that the 'accepted wisdom' could be challenged" There is a need to re-

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e-ISSN: 2348-795X
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look into making the interest free micro-financing system more vibrant by forming small groups among family members and friends. The objective is that more and more people 'pool' in their idle resources for individual and collective benefits. It is not a new concept. It is being practice at different level by different groups across the world, but in an informal way. The need is to formalize it and bring it to the center stage. It may seem to be impossible, but there are various avenues which can be explored to do so. This paper is an attempt to take such a lead.

OBJECTIVES

1. Initiating among the readers the alternate to 'interest' 2. Present a micro working model of interest free micro financing. 3. Creating interest among the readers to form their micro financing society. Exploring the Concept Who needs microfinance and why: It is basically for the poor who are out of the accessibility of formal banking system, but need financial support in small dose to overcome their hurdles. This need could be varied, like fulfilling personal or family needs, for starting micro business, to overcome natural disasters etc. What is wrong with the present microfinance system: As microfinance aims to help the deprived and pull them up from under the line of poverty, then the only element that disturbs the concept is 'interest'. If the element of interest is done away with, it will lessen the burden on the already 'deprived' borrower. There can be micro lending without interest, therefore thinking of creating a microfinance system without 'interest'. Everyone says it is non workable, but let me follow the advice of Dr. Muhammad Yunus, stay on the course and also initiate others also to follow.

CRISIS

The crisis of Microfinance sector in India In fact the microfinance is a new model for development and poverty alleviation. At the same time this sector attracted many investors both foreign and Indian vied with each other to build and fund these institutions as these became safe haven for investments. The reason was that the poor people are good borrowers, not only the return on capital was very high but also it provided highest level of safety as repayment of loan was almost 100%. It obviously helped rapid growth of MFIs in

India particularly in southern states but gradually in other states also. This double edged benefit obviously made these institutions not only attractive to private equity firms but also enabled to raise money by floating shares even at a high premium. Few Microfinance ventures in India raise capital through share market at a very high premium rate last decade. This is when microfinance institutions began to be molded to the requirements of the wealthier class. The shareholders were naturally expecting 120 a high profit for their investment. The pressure started mounting on the companies and typical target sales and profit maximization tactics slowly crawled into the nerves of these once benevolent institutions. Although profit making MFIs cater to a large number of clients their outstanding bad debt. Due to such over blown microfinance activities, in Andhra Pradesh the sector reached a saturation point. MFIs particularly in Andhra Pradesh registered a faster pace of growth when compared to others in the various parts of the world. Multiple loans availed by the clients resulted in a complicated situation of delinquency which in turn resulted in many customers taking the extreme step of suicide. Those poor people were lured into this debt trap by growth savvy MFIs and then overloaded them with loans without giving much importance to their repayment capabilities. Thus that innocent and ignorant clientele ended up with a huge amount of liability which was way beyond their ability to repay. Most of the borrowers became clueless about repayment schedule and was startled to see the rude reality only when MFIs started realizing loans with ruthless tactics. The borrowers were then forced to borrow more and more even from money lenders which in turn only worsened their debt woes. The situation became critical and came out bursting for the entire world to see its dirty face. Andhra Pradesh reported enormous number of suicides owing to this microfinance mismanagement Indeed this proved to be an eye opener to people and then lot of hue and cry was raised to question the opaque procedures and products of these institutions. Then the state government of Andhra Pradesh in 2010 introduced separate regulation for microfinance institutions. The RBI was taken a step to appoint a sub committee to

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e-ISSN: 2348-795X
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study about regulatory problems of MFIs in the country

LIMITATION

If you pay any attention to economic development in the third world, you have heard about microfinance. It's the hottest thing going. Development organizations announce their involvement in microfinance with a kind of sacred hum. People are appropriately fascinated by the rise of Kiva.org, a website that enables you to engage in microcredit from the comfort of your computer chair. Microfinance organizations offer financial services to people too poor to attract the services of traditional banks. They offer small loans—microcredit—and may also offer savings accounts, insurance, and fund transfer services. For example, I wrote a forthcoming article for*Christianity Today* Magazine about a wonderful Filipino group called CCT. The article features a woman named Cindy Caro who first borrowed $85, which she put into a processed meat business, selling hotdogs, sweetened beef and pork, ham and spiced beef door to door. Now she operates a small store. Some microcredit organizations place borrowers in small groups that meet together and guarantee each other, so that nobody can get a second loan until everybody in the group has repaid their first loan. Peer pressure and peer encouragement help borrowers stay on task. They are less isolated and less prone to discouragement. I've been amazed how many organizations have taken up microfinance. They all offer stories of families transformed by small businesses made possible through small loans—usually less than $100, at least to begin. Women buy supplies or equipment with these loans and (typically) make and sell food, leather goods, or clothing. Their profits enable them to send children to school, provide food for the family, improve their homes, and build an expanding business.

Without question, microfinance is a wonderful development. Still, its quick rise to prominence, and its adoption by practically every last development agency, says a lot about how tough development is. They must not have had very effective tools, if they are all so eager to adopt this new one.

CONCLUSION

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This paper appraises options for research relating to microfinance in India, doing so in the broad context of rival macro pressures to accelerate economic growth, maintain political order, reduce poverty and adapt to climate change. This paper first set out a general well-being regime framework that can be used for this analysis and sketch the role microfinance plays within it. It also suggests that microfinance is an important arena for exploring empirically the tension inherent in the idea of development management.

It entails that appropriate systems and processes have been put in place that will enable the services to be available on a continuous basis in a routine manner. These systems and processes should be customized as per requirement. This also would mean that the program would meet the needs of the members through resources raised on their own strength, either from among themselves or from external sources. Care need to be taken to be transparent at every level of functioning. This will bring in cohesiveness among the group and difference as and when they crop up will be ironed amicably. Hopefully forming and functioning of such interest free SHG in the society will create self-sufficient vibrant groups which will elevate people from the realms of poverty and push them towards prosperity

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