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Sustainability and Growth of Islamic Micro-Finance: A Case Study of Anjuman Islahul Muslemeen Based in Bhopal India

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Micro-finance is providing financial services to poor people, who traditionally lack access to banking and related services. In India, the population of Muslims is about 180 million and the majority of them live below poverty line. The regions where poor Muslims are in majority are marked as negative for providing loans by the banks. Study on interest-free (Islamic) micro-finance for implementation in a country like India can be very helpful in eradicating poverty and developing micro-enterprises together with sustainable development of poor and country as a whole. The primary aim of Islamic teachings (economics) is social justice to all irrespective of caste, creed, race, colour, and religion. Due to this reason, interest (riba) is prohibited not only in Islam but also in Christianity. This paper studies an Islamic micro-finance institution (Anjuman Islahul Muslemeen) situated in Bhopal (Madhya Pradesh), India. The institution was registered in 1918 by a group of Muslims to help the poor. Today, about 98 years have passed by and all group members have changed but the organization is still growing with the aim of the well-being of poor people, not only Muslims but non-Muslims as well and is serving the humanity.

Keywords: Islamic micro-finance, institution, Islahul, Bhopal, India

Introduction

Islahul or Al-Islah (الإصلاح, إصلاح, and *al-Iṣlāḥ*) is an Arabic word usually translated as "reform", in the sense of "to improve, to better, or to put something into a better position" (Wikipedia, 2016a). The organization Anjuman Islahul Muslemeen (AIM) was set up by a group of Muslims of Bhopal state in 1918. The concept (idea) of this organization initially came to a few people of Bhopal at the beginning of the 20th Century. The founder members of this organization were well versed with the Islamic teachings and laws. They knew the situation of Muslims in India at that time. The first informal meeting was held some time in December 1917 and the full-fledged organization was incepted in the early part of 1918. Late Syed Asrar Hasan was the first president of the society, late Munshi Qadar Sahab was the Secretary and late Mian Mohammad Qasim Sahab was the treasurer of the society. In all, 14 members were the office-bearers. The society was purely based on Islamic principles. Segrado (2005, p. 9) quoted an Indian researcher Dr. F. R. Faridi, "Islamic Economics comprises Justice, Equality and Fair Play". The main aim of the institution is to protect poor people from the clutches of "Sahukars" (money lenders) asking high rate of interests on borrowed money as high as 60% of the principle amount.

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AIM was initially registered as companies and stock exchange in Bhopal state initially in 1918. After the independence of India in 1947, it was registered in Nagpur the capital of central India at that time. After the formation of Madhya Pradesh (MP) on November 1, 1956, it was registered under the Societies Act of MP Government (India). The registered office of the Institution is situated at Moti Masjid in the heart of city Bhopal since last 60 years. It has been now about 98 years since this Islamic micro-finance institution started working, i.e., 1918.

Aslam (2014) stated that a micro-finance institution is an organization that provides financial resources to the needy and poor people and covers a wide area to cover its legal structure, mission, vision, methodology, and sustainability that are all attributed to provide the financial resources to the clients of poor and those who have no approach to the financial banks.

AIM has seen ups and downs from the time of inception caused due to the changes in law before and after the independence of India. The laws in India do not allow full-fledged organization running on Islamic principles, i.e., interest-free banking or interest-free financial institution. Despite the change in the members of the Governing Body and circumstances prevailing at that time, the organization still has seen sustainability and growth together with the motive of welfare to poor people in and around Bhopal (MP) India.

The Objective of Institution

The objectives of the institution are as follows:

(1) To alleviate poverty through Islamic micro-finance and to protect people from the clutches of "Sahukars" (money lenders) who charge high rate of interest up to 60% from the poor people;

(2) To bring poor Muslims onto the mainstream and make them self-employed and self-sufficient. The institution does not want poor to be permanent client of AIM, and because of this reason, the loans given are not more than INR 20,000 at one time;

(3) To follow Islamic principle and practices. The objective of the institution is not to increase outreach unlike any other conventional micro-finance organization but to have financial sustainability and growth of the poor and the organization.

The objective of the research being undertaken is to study how a non-profit Islamic interest-free micro-financing organization can benefit a society in a country like India without the use of interest and financial support by Government when conventional interest-based micro-financing has been a big disaster and shaken the trust of people in alleviating poverty in India.

Literature Review

Obaidullah (2008, p. 13) stated that poverty levels have also been associated with high inequality alongside low productivity. In Indonesia alone with the world's largest Muslim population, over half of the national population, about 129 million people, are poor or vulnerable to poverty with incomes less than merely US$2 a day. Bangladesh and Pakistan account for 122 million each followed by India at approximately 100 million Muslims below poverty line.

According to Aslam (2014), micro-finance is a big terminology which is used to provide the financial services to the poor people of third world, in the form of individual loan, group loans, micro leasing, micro loans, micro insurance, and the fund transfer to develop their business and assist them for exceptional emergencies.

Mirakhor and Iqbal (as cited in AsadEjaz & Ramzan, 2012, p. 311) stated: "The principle of Qarz-e-Hasana is that the lender gives loan to borrowers without any profit/extra amount or interest, and debtor is supposed to return back as per pre-decided date but lender will not press to return back soon".

According to Chakrabarty (2015), in India, Muslim population exceeds 175 million and a major part of this population does not participate in the Indian financial market largely dominated by interest-yielding instruments and conventional interest-based banking. According to a report by the Reserve Bank of India (RBI), India's Central Bank, the credit to deposit ratio of Muslims in the country is 47% against the national average of 74%. It can be observed from the above statistics, India offers a huge potential for Shariah finance. Islamic micro-finance may be the solution of present dilemma. Financial regulatory authority of India still does not adopt Islamic micro-finance as an alternative way of financial inclusion while interest-free micro-finance is working in some parts of the country.

Muzamil Ali, Shahbaz, Abbas, Iqbal, and Suleri (2014) argued that households should actively engage in the small loan program and effectively invest the obtained loan in activities like farm production and self-employment for the purpose of income generation. They found that micro-credit program does not only benefit the poor people but specially the extremely poor people. The poor people should be facilitated with other kinds of assistance before they can efficiently use credit; these supports include infrastructure improvement, health care, employment, education and training. Similarly, Sharma (2001; as cited in Muzamil et al., 2014) stated that small growers had not proper resources to finance their production needs. They need additional financial assistance for resolving their problem and increasing the income level.

Out of Bhopal's total population, 1.25 million were Hindus (71%), 0.5 million or 500,000 were Muslims (27%), and the rest were Jains, Christians, Buddhists, Sikhs and others (Wikipedia, 2016b).

Research Methodology

This was basically qualitative research. However, to elucidate the qualitative data, quantitative data were also gathered on limited scale by visiting the office of AIM. Convenient and purposive sampling technique was used to gather the data. Qualitative data were gathered through personal observation and in-depth interview from the official of AIM. Questionnaire was used to gather the quantitative data.

Funding of AIM

The unique model adopted by AIM of Islamic micro-financing in which the organization has not received any foreign aid or financial support from Government of India since its inception in 1918, i.e., about 98 years have passed but growth of AIM has been sustained. When this institution started, the members used to give loans as Qarz-e-Hasna from their savings.

The organization started opening Accounts of Muslims called Amanat accounts who deposit their money in the account with the motive to help the poor. The account holders can withdraw their money at any time. The people know that they will not get any interest on their deposited money and the money would be used for giving Qarz-e-Hasna to the poor. Every month, INR 4,500,000 (Rs. 4.5 million) is distributed as loans among the clients. The institutions' annual turnover has reached up to approximately Indian Rupees 50,000,000 (Rs. 50 million). The loans are given from Rs. 1,000 to 20,000. Collaterals in the form of gold are asked from the borrowers borrowing from 4,000 to 20,000 plus 4% administrative charges. The people who need loans from INR 1,000 to 3,000 are not asked for any collaterals and also administrative charges are waived off.

The borrowers are supposed to return the money within 12 months of time frame. About 4,000 people are given loans every year. Out of which about 1,000 are new clients including Muslims and non-Muslims.

Operations

The organization operates from Moti Masjid, and due to this reason, there are no rental charges. The office is simple with minimum facilities. The use of Masjid for operations helps in eliminating the rental charges of the office. Secondly, it is a well-known place for the local people. The Masjid is constructed on Waqf land.

There are about 19 employees who are paid salary including four security personnel. The security guards are available 24 hours for security purpose of the gold deposits, two in the day time and two at night. The salaries of the employees are given from the amount collected in the form of administrative charges. While interviewing of Mr. Anees-ul-Hasan Ansari (M.Sc. Chemistry Gold Medalist and an Advocate) who is at present the President of the institution informed that the office-bearers and members work on voluntary basis, they are not given any remuneration. The source of income of the AIM is the money deposited in the accounts with the institution by the people of the city who have got money. There are now about 10,000 account holders with the institution and the balance in each account varies from INR 500 to 400,000 at any point of time. Many customers who have now become self-sufficient or raised to mainstream (financially) now also open an account with the organization in order to help other underprivileged people. People of other religions are also allowed to take loans on Islamic principles from the institution.

To have transparency in the records, the computer (two in number) records are verified with bank statements every month. CCTV cameras (eight in number) are also installed in the premises of the institution for security purpose. Internal and external auditing is also carried out. Income tax return is also filed with Income Tax Department, Government of India.

In case the borrower dies there is also a provision of nomination. The collaterals are given back to the nominee after verification of the details, when he or she pays back the loan amount. The nominee is given a period of further two years time for payment of loan. Same is the case with Amanat Account holders to whom the money is given to the nominee after verification of details.

Qarz-e-Hasna in the form of family loans is given. The loans are given under the heads of the following.

Education. AIM provides loans to students of underprivileged parents for payment of tuition fees and books. Loans of 1,000 to 3,000 rupees are given without any collateral security.

Health. There are many poor families in and around Bhopal who need financial assistance for medical purposes such as doctor consultation fees, medicines and medical tests which are too costly. Keeping in mind medical loan is given to families up to Rs. 20,000. The return period is 12 months in installments.

Business. Business loans are given in order to make people self-sufficient. Entrepreneurs are given loans for starting micro enterprises and maintaining a micro enterprise. Loans are given for buying of auto-rickshaw, sewing machine, running a grocery shop, etc.. If the cost of the commodity is less than Rs. 20,000, full payment is made by the institution and if it is more than Rs. 20,000, loan up to Rs. 20,000 is sanctioned. Monitoring and training is also taken care of as many people are illiterate and uneducated.

Maintenance of house. There are many poor families (numbered about 1,000) about 6-9 living in one house occupying Kachha houses (houses made of mud) which require maintenance of roofs in the rainy season. The housing loan is largely meant for such families and is lent for renovation of houses, construction of rooms, roofs, walls, etc.. The loan ranges from INR 5,000 to 20,000, and has to be repaid within two years.

Marriage. The organization offers marriage loans to parents for marrying off their daughters. It is a big responsibility for parents in our society and many face difficulty in arranging the necessary funds for marriage ceremonies and dowries. Marriage loan is meant to facilitate such parents and ease their burden. Up to 20,000 rupees can be disbursed for this purpose.

AIM also helps people who have already taken loan on interest basis to protect their money being eroded in the form of interest.

The amount from 1,000 to 3,000 rupees is given many times from the Zakat fund after checking and verifying financial condition of the clients of sister organization viz. Anjuman Anayat Bewagan which has also got its registered office situated at Moti Masjid, Bhopal, MP, India. This verification is done by interrogation of the financial condition of the families by their neighbours and friends.

The Islamic Micro-Finance Model of AIM

The AIM model has been explained in the form of flow chart (see Figure 1). The poorest and poorer, i.e., those who do not have the proper basic necessities like food, shelter and clothing are helped with Zakat fund. Every year, blankets are distributed from the Zakat fund. Poor widows are given pension every month. From Figure 1, it can be indicated that poor people are protected from becoming poorer whereas the poorer and the poorest are supported by the Zakat fund. The AIM's mission is to slowly and steadily raise the standard of living of the poor by financially supporting and making them self-sufficient and bringing them into the mainstream. In turn, the people become self-sufficient and open Amanat Accounts with AIM with the motive of helping other needy people. The people who come into the mainstream by the process also help with Zakat funds, thus making the whole Islamic micro-finance model sustainable.

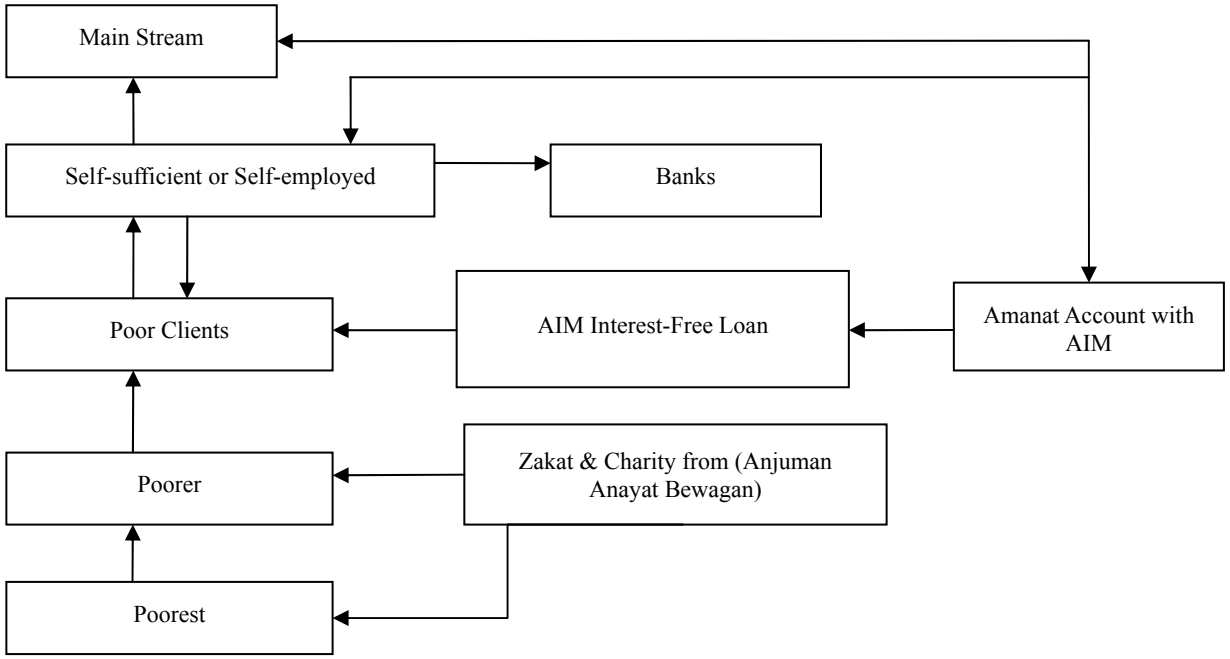

Figure 1. Islamic micro-finance model of AIM.

Result and Discussion

The success of the organization can be evaluated from the fact that all its expenditure is compensated from the 4% administrative charges and still some money is left over which is added to the principal amount of organization. The loan recovery rate is as high as 99.8% with only about five clients out of 4,000, i.e., about 0.125% asking to sell their gold kept as collateral in a year. The institution does not sell the gold but gives them more time for repayment of loan. No penalty is made for delay. The outreach of the institution is slow but steady as the organization has neither government support nor extra fund to organize fund-raising events. The only way out for publicity is the word of mouth but is very effective. Secondly, the laws are not favourable in India as stated by Chakrabarty (2015) that financial regulatory authority of India has still not adopted Islamic micro-finance as an alternative way of financial inclusion while interest-free micro-finance is working in some parts of the country.

Due to stringent laws for registration of interest-free financial institution, both of these organizations face serious hurdles in expansion of its services. The demand is really big and they have the "product" (service) in hand, but could not supply it due to legal restrictions.

Conclusion

Islamic micro-finance prohibits charging of interest on loan as it is prohibited in Quran. The motive of Islamic micro-finance and AIM is to protect poor people from becoming poorer and poorer becoming poorest. There is a very thin line between poor, poorer, and poorest. Zakat is, therefore, obligatory in Islam for rich people so that money is redistributed among the society and does not get accumulated in the hands of a few. The mission and vision of AIM unlike any conventional microfinance organization working elsewhere is not to make profits or increase the outreach but slow, steady, and sustainable growth of the poor making them self-sufficient and self-employed. The success of an Islamic micro-finance institution can be regarded when poor are alleviated from poverty maintaining the standard of living of the people that is first by helping the poorest, the poorer and the poor, giving them financial cushioning at hard times (Ameer, 2013, p. 114). Interest-free micro-finance can help poor to uplift their living standards and ultimately contribute to the economic development and enriched prosperity of the country as a whole.

Firstly, the sustainability of AIM can be gauged by its successful operations for the last 98 years since 1918, unlike any other Islamic micro-finance institution in spite of no financial aid and laws of land, i.e., India. Secondly, the low operational costs as compared to Akhuwat, Pakistan and Amanah Ikhtiar, Malaysia are more than 4%. Thirdly, all the members have changed but the spirit of organization has remained the same which is not the case with any other micro-finance institution in the world. Fourthly, the growth can be analysed from annual turnover which has increased manyfolds since last 98 years which was few rupees at the time of its inception.

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