

Integrating Waqf with Islamic Microfinance Institutions: Growth Expansion and Sustainable Development in India- Short Communication

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Abstract

In India, the population of Muslims is about 180 million and the majority of them live below poverty line and if non-Muslims are taken together this number reaches to about 77% of total Indian population, Microfinance is providing financial services to poor people, who traditionally lack access to banking and related services. Islamic Microfinance is based on Islamic principles in which interest/ Riba / Usury is prohibited. When loan is given without interest on the borrowed money, this loan is known as Qard-e-Hasana. The operational costs incurred in Islamic Microfinance Institutions (IMFI) is one of the major issues i.e. from where operational costs (which includes rent of space, salary of personnel, other overhead costs etc) should be compensated as no interest is charged in Islamic Microfinance. Islamic microfinance products are still quite small relative to the conventional microfinance sector and there is hindrance in growth, expansion and sustainable development due to the above discussed issue. Many IMFI charge 3-5% as service charge from the borrowers to cover operational cost, this service charge is interest/ riba as fixed amount is charged on the borrowed money, secondly, it gives an extra financial burden to the people who are already poor and needy. The primary purpose of IMFI is to provide financial support to the financially vulnerable people of the society and poverty alleviation. The problem discussed above can be solved by using Masjid space for IMFI office and using resources obtained from Waqf and Infaq.

Key words : Islamic Microfinance Institution (IMFI), Riba, Interest, Waqf, Infaq, India.

Introduction

In India, the population of Muslims is about 180 million and the majority of them live below poverty line and if non-Muslims are taken together this number reaches to about 77% of total Indian population, Microfinance is providing financial services to poor people, who traditionally lack access to banking and related services⁵.

progress of any Islamic Microfinance institution (IMFI) the problem of finding a way out to meet operational costs as no interest is charged from the borrowers is a big challenge. To meet the incurred operational costs many IMFI charge service charge of 3-5 % from the borrowers. According to some scholars it is permissible and for some other scholars it is other form Riba as fixed amount is being charged by changing name of interest to service charge.

For sustainable expansion growth and

In any IMFI two types of accounts are opened

viz:- Amana account and equity account. The condition of Aminah account is to return exact amount (to the depositor) to the person in whose name the account is opened for giving the loan i.e. if a person has deposited Rs 100k in the IMFI for giving loan to the poor then exactly same amount should be given back to him when he demands. In case of equity accounts (more or less amount can be given back), this is based on profit and loss but this type of account is useful for giving business loans only. If personal loans for various purposes like education, health, repairing for houses etc., even in business loans according to Islamic law no interest of any form can be charged even as service charge. The problem of meeting operational cost like salary of personnel working in IMFI and other cost like rent of space, other overhead cost like electricity bill and any other recurring expenditure needs to be met. The meeting of operational cost of any Islamic Microfinance Institution is a big challenge and hinderance in growth, expansion and sustaining any IMFI throughout the world. The problem can be solved by minimizing the cost and this can be done by using Masjid space for setting up office of any IMFI and using money available through waqf and infaq.

Waqf means a permanent dedication of a person professing Islam of any movable or immovable property for any purpose recognized by Muslim law as - auspicious, religious or charitable. India has largest number of Waqf properties around 4.9 lakhs with approximate income from these properties to 163 crore rupees. If these properties are managed and developed properly could fetch around an income of 12000 crore rupees per annum.²

Cash *waqf* is a type of *waqf* categorized as movable *waqf*. Like other *waqf*, cash *waqf* aims to promote service to mankind by establishing *waqf* using money. Historically, cash *waqf* was widely used by the Ottoman Empire since the end of 16th century. At that time, cash *waqf* was used to finance entrepreneurs for their business, and then the return was used for public service such as hospitalization, education, water channelling, bridges, roads, etc. Cash *waqf* played an important role in the economy of the empire¹.

The majority of people also understands that any extra money paid back on the loan amount is considered interest. However, when asked about service charge a customer pays to the institute when taking loan is considered interest, 49.8% responded saying yes while the rest 50.2% considered it to not be interest. Hence the study shows that majority of the respondents are aware of Islamic microfinance but do not have much understanding of the products offered by Islamic microfinance and how it functions.³

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.⁴

The objectives of the Islamic microfinance Institution is: To eradicate poverty amongst the poorest and achieve sustainable development. To bring lower and lowest income groups people into the main stream. To enable poorer and poorest segments of the population to participate in income generating economic activities, thereby equalizing opportunities and reducing inequalities. To protect the poorer and the poorest from money lenders.⁶

Conclusion

By integrating IMFI with waqf and Infaq the problem of meeting the operational costs can be solved. Secondly, amount charged from poor people in the form of service charge is wiped out reducing their burden who are already in need. Thirdly, the scope of interest in any form is wiped out of the Islamic Microfinance system. The difference of opinion which exists amongst different scholars is wiped out. The benefit of using Masjid for office space is manifold the cost is reduced and the Imam and Muazin of the Masjid can work in IMFI office and poor and poorest people of the locality can easily approach them. They can do survey of the locality and find out the exact financial situation of people in that particular locality. The salary of Imam and Muazin can be increased for doing extra work which can be compensated from waqf or infaq. The service charge which is taken from the poorer and poor borrowers can be waived off through

this reducing their burden and completely eradicating riba from Islamic Microfinance Institutions. The solution proposed in the article can be implemented not only in India but also in entire Indian subcontinent and even throughout the world in all countries.

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