



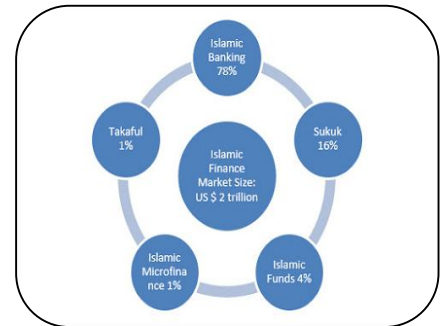
POVERTY ALLEVIATION IN INDIA THROUGH THE ISLAMIC BANKING

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ABSTRACT :-

India dreams to develop into a superpower but a one third of the world's poor still lives here. India is one of the fastest developing economies in the world but also a home to the largest number of malnourished children. As per World Bank report 32.7 per cent of the population in India lives below the poverty line, 45 per cent of children in India are malnourished. Malnutrition was the predominant risk factor for death in children younger than five in every state of India in 2017. India recorded the highest suicide numbers in the past five years. The presence of Islamic Banking should be felt at all levels of the society, specially the poor because Islam is basically in favor of poor peoples.



Indian economic policies and financial systems failed to eliminate the poverty. Islamic finance can help in eradicating poverty by lowering down the economic disparities as there is no interest obligation on the part of the unfortunate borrowers. Hence it becomes necessary to adopt Islamic financial system to reduce poverty in India. This study will be effective in solving social problems, alleviating poverty and reducing social inequality in India. Islamic banking as a viable alternative to tackle the economic and social problems.

KEYWORDS : *Islamic Banking & India, poverty, economic policies.*

1. INTRODUCTION:-

India dreams to develop into a superpower but a third of the world's poor still lives here. India is one of the fastest developing economies in the world but also a home to the largest number of malnourished children. As per World Bank report 32.7 per cent of the population in India lives below the poverty line, 45 per cent of children in India are malnourished. Each day in India 3000 children die daily because they do not get sufficient and health food. As per the report of National Crime Record Bureau more than 15000 farmers committed suicide in 2017, it only shows that one farmer commits suicide somewhere in the country at every 42 minutes. In per capita income, Indian ranks 136 in the world in the year 2010,

which further descended to the rank 148 in the year 2013. There are number of people in India who still live on the streets and beg for the whole day to eat a meal.

Poverty in India – the statistics:(Report of Planning Commission of India 2014)

- 50 per cent Indians don't have proper shelter.
- 70 per cent Indians don't have decent toilets.
- 35 per cent of households don't have a nearby water source.
- 85 per cent of villages don't have a secondary school.
- Over 40 per cent of these same villages don't have proper roads connecting them.

There have been various poverty alleviation programs executed since the independence of India to improve the economic condition of the poor of the country. But there always remain certain faults in their performance. Indian economic policies and financial systems failed to eliminate the poverty. Islamic finance can help in eradicating poverty by lowering down the economic disparities as there is no interest obligation on the part of the unfortunate borrowers. Hence it becomes necessary to adopt Islamic financial system to reduce poverty in India.

Islam provides an economic outlook on the fundamental principle of social order, justice and economic affluence. Islamic banking is based on the doctrine of shariah,. In Islam Shariah refers to the divine guidance and laws given by the Holy Quran, the Hadith (sayings) of the Prophet Muhammad (Peace Be Upon Him) and supplemented by the juristic interpretations by Islamic scholars.

Islamic banking forbids the payment and acceptances of interest (riba or usury) for providing equal and legitimate distribution of wealth and inclusive development of society as whole.

Dr. Muhammad Al Biltagy defined Islamic banks as financial institutions that present banking and investment services in light of Shari`ah rulings following the financial factor style based on the principle of participation in profit and loss.

2. OBJECTIVES OF THE STUDY

Objectives of the study will be :

- 1) To understand basic principles and financing modes of Islamic banking.
- 2) To study Poverty allevation in India through Islamic banking
- 3) To study need of Islamic banking in India.

3. RESEARCH PROBLEM

Islamic banking is gaining momentum throughout the world, but India is still unfamiliar with this concept. The research intends to focus on the issue that poverty in India can be eradicated by applying Modus operandi of Islamic bank.

4. RESEARCH METHODOLOGY

This is an exploratory-cum-descriptive nature of research and it involves depth theoretical analysis, thus qualitative research method was adopted to explore the details of Islamic banking sector. The secondary data have been collected from the various web sites, and different journals, annual reports, periodicals magazines and weeklies published by the various research companies, Islamic Institutes & colleges and consultancies, various Islamic banks reports and also the analyst organizations.

5. REVIEW OF LITERATURE

It is not possible to cover in this paper all the publications which have appeared on Islamic Banking. There are numerous publications in Arabic and Urdu which have made significant contributions to the theoretical discussion.

1. Lalita Kumari (2010) explained that Poverty results in a less favorable family environment and poor quality parenting. It diminishes the ability of parents to provide supportive, consistent behavior and may render parents more vulnerable to debilitating effects of life events. (1)
2. Ismail Sirageldin (2000) analyses that the issue of elimination of poverty with the help of an axiomatic approach. He finds Islamic ethic is supportive of poverty-alleviation strategy based on the principle of promoting economic growth with productive equity. According to him Islamic ethics rely on individual and private action to reduce poverty. The most obvious is the institution of Zakah which institutionalizes the principle of care at individual and community level. (2)
3. Amit Kumar Chakrabarty explained that the various causes of rapidly increasing poverty in the Muslim world are lack of education, lack of employment, political instability and so on. But on the other hand, the main snag is unavailability of the proper financial products which are in line with the Muslim's religious values and social norms. Micro financing is not utilized by Muslim population due to interest and thus is excluded from financial inclusion. On the other hand, Muslim world can be led out of the poverty by extending financial inclusion through Islamic microfinance. (3)
4. Askari, Iqbal and Mirakhor (2015) explained that Islamic banking as part of the Islamic economic concept is a representation of economic morale for the financial sector. So the course of profit making must be based on the principle of justice and equity. It is also affirmed by that the foundation of the Islamic economic system is social and economic justice. In addition, as mentioned above, Islamic banking that is based on Islamic law has also the responsibility to realize the benefits of the people. Consequently, Islamic banks inevitably also have to start paying attention to social welfare, not only through the Corporate Social Responsibility program, but also through financing activities in favor of smallholders.(4)

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5. BASIC PRINCIPLES OF ISLAMIC BANKING

Islamic bank is an institution conducting its business in compliance with the Shariah principles. Islamic banking provides interest-free banking. It mobilizes the financial resources and invests it in Islamic ally acceptable activities. Major principles of Islamic banking are discussed below.

1. Prohibition of Interest or Riba.

Principles of Islamic banking are derived from the Holy Qur'an. Islamic bank prohibits the acceptance and payment of interest called riba in Arabic. The rationale behind it that, profit for the sake of

profit does not create any sort of benefit to the society as a whole. Charging interest leads to the exploitation of poor and fewer fortune people and earning a profit without any risk also not legitimate.

2. Prohibition of investing in unlawful business.

Islamic bank invests their money only in those activities which are permissible by the shariah. Conduct business of alcohol, gambling, and speculation are prohibited in Shariah. Those transactions which do not comply with the shariah haram.

3. Sharing of Profit and Loss.

One of the important principles of Islamic bank is that Profit and loss gained from venture should be shared among the lender and the borrower. There no any prefix in terms of return.

7. MODES OF ISLAMIC BANKS AND FINANCE

Let us discuss in short few modes of Islamic Banks and Finance.

a) Mudarabah (Profit Sharing):

An Islamic contract in which one side provides capital and other side provides labour. The profits are to be shared in proportions agreed upon before implementation of the contract. Providers of the capital bear all net loss according to the contract unless there has been violation of the contract terms or neglect from the part of the working partner.

b) Musharakah (Joint Venture) :

Partnership or more than one party subscribe to the capital of a business undertaking and share profits and losses according to their respective share. All providers of capital are entitled to participate in management but not necessarily required to do so.

c) Murabaha (Cost Plus) :

The mechanism of Murabaha is that the bank purchases the commodity as per requisition of the client and sells him on cost-plus-profit basis. Under this arrangement, the bank is bound to disclose cost and profit margin to the client. Therefore, the bank, rather than advancing money to a borrower, buys the goods from a third party and sells those goods to the customer on profit.

d) Bai - Salam :-

Salam means a contract in which advance payment is made for goods to be delivered at a future date. The seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advance price fully paid at the time of contract. It is necessary that the quality of the commodity intended to be purchased is fully specified leaving no ambiguity leading to dispute.

e) Ijarah (Leasing):

Ijarah refers to transferring the usufruct (handover) of an asset but not its ownership. Under Islamic banking, the bank transfers the usufruct of an asset to another person for an agreed period at an agreed consideration. The asset under Ijarah should be valuable, non-perishable, non-consumable identified and quantified. According to this agreement the bank is Lessor and the customer is Lessee.

f) Istisna :

Istisna'a is the second kind of sale where a commodity is transacted before it comes into existence. It entails ordering a manufacturer to manufacture specific goods for the purchaser. If the

manufacturer undertakes to manufacture the goods for him, the transaction of *Istisna'a* comes into existence. *Istisna* can be used for providing the facility of financing the manufacture or construction of houses, plants, projects and building of bridges, roads and highways etc.

g) Qard Hasan :-

Qard Hasan is a kind of loan given on the basis goodwill and the debtor is not charged by interest, debtors only have to repay the borrowed amount, but if the borrower, at his own will wants to pay some interest or some additional amount to the borrowed amount, he can pay to the creditor as thanks giving. Therefore there is no fixed interest rate and this kind of transaction is truly free of interest. It is called interest free loan.

8. POVERTY ALLEVIATION IN INDIA THROUGH THE ISLAMIC WAY

Islamic banking is the value based banking aims ensuring moral and ethical well-being of the society. It has the ability to contribute in the economic growth of India, entrepreneurship in India, capable of improving the weaker section in the society, will reduce employment. Loans will be provided to rural and agricultural sector, corporate and individual zakat will lessen the gap of inequality and bring social welfare.

● Growth of Small and Medium Enterprises (SME)

Islamic Banking has Potential to contribute in the poverty eradication through Small and Medium Enterprise (SME) financing, rural and agricultural growth and their operational expansion. With the introduction of Islamic products like *Mudarabah*, funding to SMEs may be increased leaving them with only operational cost unlike suffering the financial risks in the present arrangement. It will ensure sustainability in SMEs, which in turn promote the economy of India as SMEs constitute 80% of the total industrial enterprises and have a 40% share in industrial output. SME sector has a great potential for expanding production capacity and self employment opportunities.

● Upliftment of Farmer

Agriculture is still the mainstay of the Indian economy as it serves the basic source of livelihood for more than 50% Indian workers. These workmen should have kept pace with the growth of service sector but the developing economy has become suicidal economy for them. According to BBC News, 3,00,000 farmers have committed suicide in India since 2017. Apart from the menace of globalization, the prime reason for these tragic ends to life is failure to pay interest-ridden debt. For amelioration, interest free system may play a big role. In this regard, Islamic product like *Bai Salam* and *Istisna* may be used for the benefits of farmers. Salam has a vast potential in financing the productive activities in crucial sectors, particularly agriculture, agro-based industries and the rural economy as a whole.

● Investment from Gulf countries.

Indian economy would benefit from inflow of funds from Gulf countries. With the establishment of Islamic banks, it is estimated that trillions of dollars can flow to India from Gulf (Headlines India 2010), as people from that region are investing their surplus in *Shariah*-compliant institutions. At present, almost all the money is deposited in the Islamic banking windows in London, New York, Zurich and Frankfurt. However, due to manipulation of fund in the recent past, they are looking for a safe investment destination India could well be that destination given its safe economic scenario, huge market, skill and educated labour and good growth rate (Raqeeb A 2010). This estimated fund from Gulf is sufficient to create more than 2.7 million jobs in India. It will also assist in reducing the fiscal deficit.

● **Reduces Unemployment**

Islamic Banking has potential to reduce unemployment by providing SME sector loans, Provide Qard E Hasan schemes but taking into consideration all security factors. (SALEEM, 2008) The institution of Qard E Hasan can be useful in eradicating extreme poverty by Making opportunities available to the poor to create new jobs and business ventures with their merits, skills and expertise.

● **Free from exploitation**

Islamic Banking prohibits those investment avenues which are considered to be harm under Islamic shariah. Those transactions include alcohol, pork, gambling, speculation, weapon Pornography etc.

● **Equitable Distribution of Wealth**

Indian economy has been growing considerably and the share of the financial sector in the Gross Domestic Product (GDP) has increased in the recent years. However, it seems to favour the corporate sector than vast sections of the population living below the poverty line as the latter is constantly increasing. The extension of debt finance by commercial banks and interest rate sensitivity to inflation are well known. Islamic bank assist in equitable distribution of income by encouraging equity finance.

● **Financial inclusion of Muslims**

As per survey conducted by RBI it is found that maximum Muslims are not interested to deposit their saving in commercial bank or to invest in capital market, they may keep their money idle in their home or invest in Gold or Real estate. As per RBI report 2007-08 Indian Muslims lose around Rs. 63,700 crores annually. It hampers mobilization of Muslims' saving and hence obstructs economic growth. Islamic Banking could well be the solution. In this context, the RBI report of 2005 outlines that interest-free banking is an attractive proposition gaining currency all over the world and so it is time for India to introduce it.

● **CONCLUSION**

Islamic banking is the value based banking aims ensuring moral and ethical well-being of the society. It has the ability to contribute in the economic growth of India, entrepreneurship in India, capable of improving the weaker section in the society, will reduce employment. Loans will be provided to rural and agricultural sector, corporate and individual zakat will lessen the gap of inequality and bring social welfare. Islamic banking not only covering the needs of Muslim population but it is fulfilling the needs for the development of all community. It is important to create awareness among common citizens, policy makers, bankers, politicians, businessmen and other stakeholders. Poverty can be reduced either by economic growth consistent with the population growth or by reducing unnecessary consumption. Islamic banking provides for both – by financial inclusion and investment from Gulf countries, it ensure production or more wealth by utilizing these investments. RBI and ministry of finance should consider Islamic banking as viable alternative to tackle the economic and social problems. Islamic banking has one of the objectives as 'equal distribution of income', which in other words mean complete eradication of poverty. But it can be achieved only if Islamic banking is fully implemented in India.

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