

INDIA'S PREMIER ISLAMIC FINANCIAL INSTITUTION IN DIRE STRAITS

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One of India's oldest and premier Islamic financial institutions Bait-un-Nasr (BUN), which is closed for over two years, is still waiting for some external assistance to resume its operation. BUN was closed after a run on it when one of its former associate Barkat Investment Group was taken over by the government after failing to meet its maturing commitments. During the past few years several Islamic Financial Institutions have failed in India for various reasons. However the case of BUN is typically different for two reasons; firstly, it never raised deposits on PLS or for business purposes, and more than 90 percent of its depositors are from the economically lowest strata of society.

Barkat was one of India's another prominent Islamic financial institutions functioning since mid eighties till the late nineties when it succumbed to sharply falling real estate and stock market prices.

BUN on the other hand being registered as cooperative credit society did not accept deposits on Profit & Loss contracts rather all its deposits were of the nature of *Amanah*. It functioned smartly since its beginning in 1973 (registered in 1976) with a meager amount of Rs. 12000. Two important features of BUN's byelaws were:

- (i) It will purely function as an interest-free institution and
- (ii) It will not engage itself in actual business that means it will remain confined only to financial intermediation, on the basis of no-profit no-loss.

On the eve of its closure BUN had the deposits over 120 million and had advanced loan to the tune of Rs 36 million. Its membership too had a sharp increase during the period of its functioning from 654 in 1977 to 155000 in 1999. According to the latest estimates, the total net liability of BUN is about Rs. 26 million. Of its total current liability of Rs. 120 millions, it has already paid its depositors over Rs. 60 million and of the rest Rs. 60 million liability about Rs. 34 million worth is covered by assets it currently possesses.

Table: Financial Performance of Bait-un-Nasr (1977-1999)

Years	1977	1982	1987	1992	1997	1998	1999
Branches	1	4	7	12	18	18	20
Members	654	6820	20356	47186	120510	137797	155050
Share Capital	26000	126000	584000	2862000	13035000	12993000	12762000
Total Deposits	36000	171000	6191000	26302000	108580000	119184000	124159000
Loan Turnover	49000	3062000	15977000	58088000	278995000	324950000	364810000
Total Assets	0000	13000	705000	5497000	25760000	30405000	34598000

Note: Share capital, deposits, loan turnover and assets are expressed in Indian Rs. term.

By mid eighties BUN floated few partnership firms under the flagship of Barkat Investment Group that accepted deposits from public under profit & loss sharing

arrangements. All the schemes of Barkat barring one did well till the new NBFCs regulation came into force in late 1998. Prior to this Barkat had its investment locked in sharply falling real estates. Despite being successful in securing a certificate of registration for carrying the business under the new NBFC format, Barkat succumb to its past injuries. And after the complaints by few depositors who could not get their money repaid on time Barkat was decided to be taken over by the government of the state of Maharashtra under the newly enacted Depositors' Protection Act.

After the Barkats' liquidation in May 2000 speculations grew that BUN would follow the suit which BUN faced boldly. A few people, in the local media also prophesied that BUN was bound to follow the liquidated firm. The matter was compounded when BUN Managing Director was (mis) quoted in a local media that BUN "depositors should take their money within 48 hours...". By the next day evening over a quarter century trust had bitten the dust. Third day there was small column corrigendum in the same media that BUN Managing Director had been misquoted, "what he really meant was... BUN could pay its depositors within 48 hours". This not only had a shattering effect on the 300 odd employees of BUN but also it's over 150,000 depositors.

One remarkable thing about BUN is that till date nobody has filed a case despite it being closed for so long. This should be taken as an opportunity not only to save one of the brightest IFI in the country but also the whole life savings of the poorest of the poor.

It is high time when some international Islamic financial institutions may extend its cooperative arm to save one of the brightest Islamic financial *institutions* in India.