

ISLAMIC ALTERNATIVES TO POVERTY ALLEVIATION: ZAKAH, AWQAF AND MICRO FINANCE

Dhaka April 21-23, 2007

Problems In Resource Utilization By Islamic Micro Financial Institutions In India

**Dr. Shariq Nisar
India**

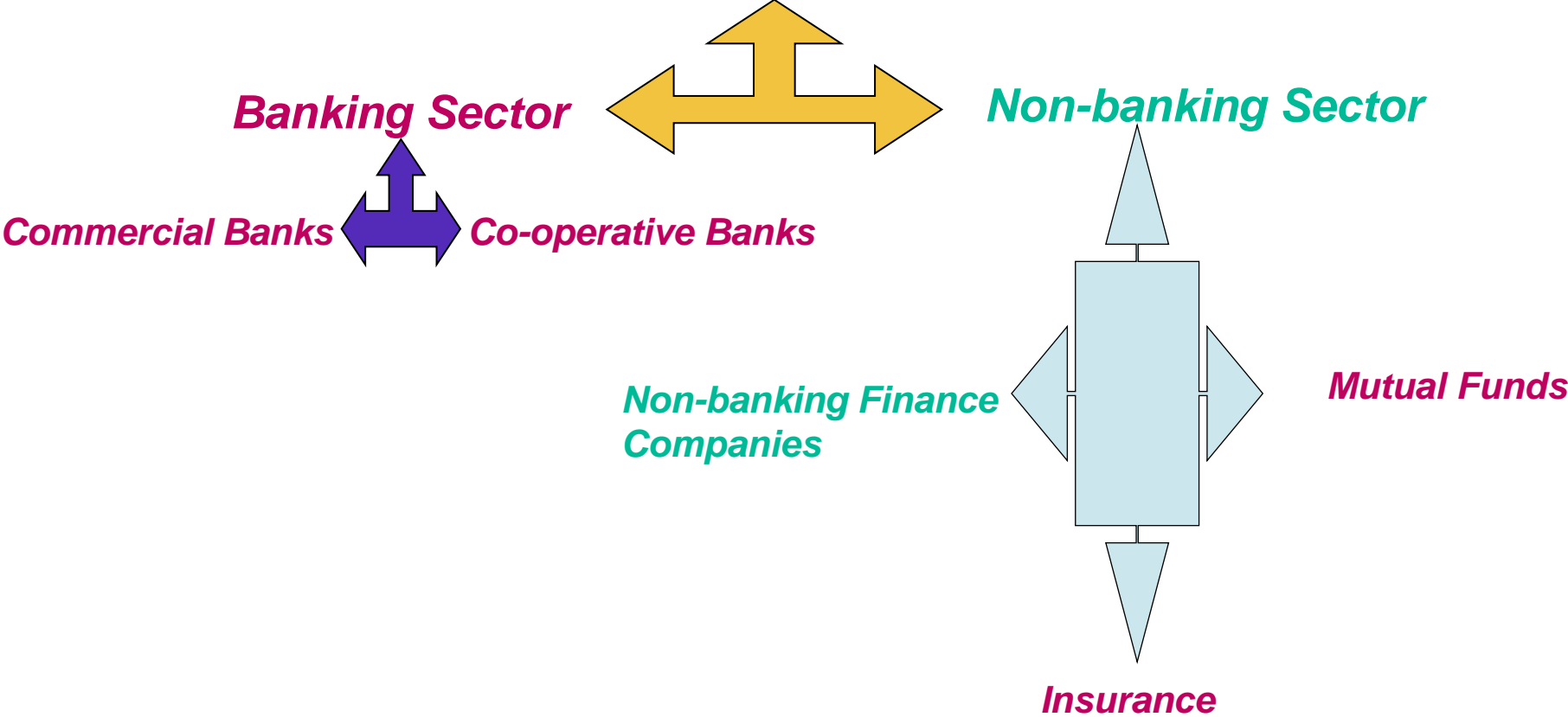


ABSTRACT

- Over 200 Islamic micro financial institutions are working in India. More prominent among these financial institutions are the “Muslim Funds” that are successfully functioning in most part of the Muslim concentrated north India.
- These financial institutions have not faced much problem in resource mobilization. However, resource utilizations has been a major cause of concern for them. Their problems are further compounded due to the non-recognition of Islamic modes of financing in the country. Because of this, a number of Muslim Funds are forced to suspend their expansion plans, which in turn has affected their efficiency, competitiveness and public welfare activities.
- Based on the primary as well as secondary data, this paper attempts to identify the problems of resource utilization of selected Muslim Funds of North India.

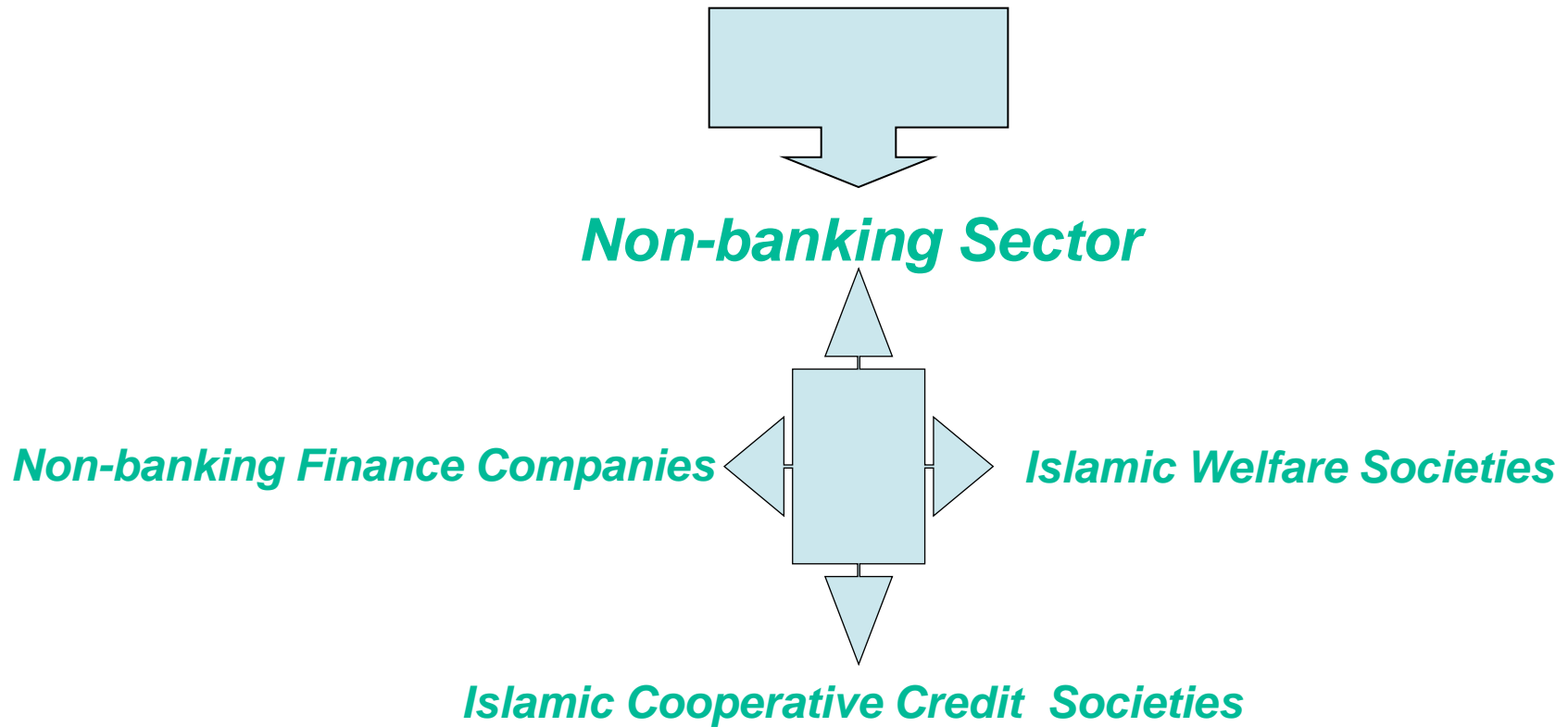
PROBLEMS IN RESOURCE UTILIZATION BY ISLAMIC MICRO FINANCIAL INSTITUTIONS IN INDIA

Indian Financial System



PROBLEMS IN RESOURCE UTILIZATION BY ISLAMIC MICRO FINANCIAL INSTITUTIONS IN INDIA

Islamic Finance in India



Financial Strengths of Muslim Funds: 1998-2002

Rs. Million

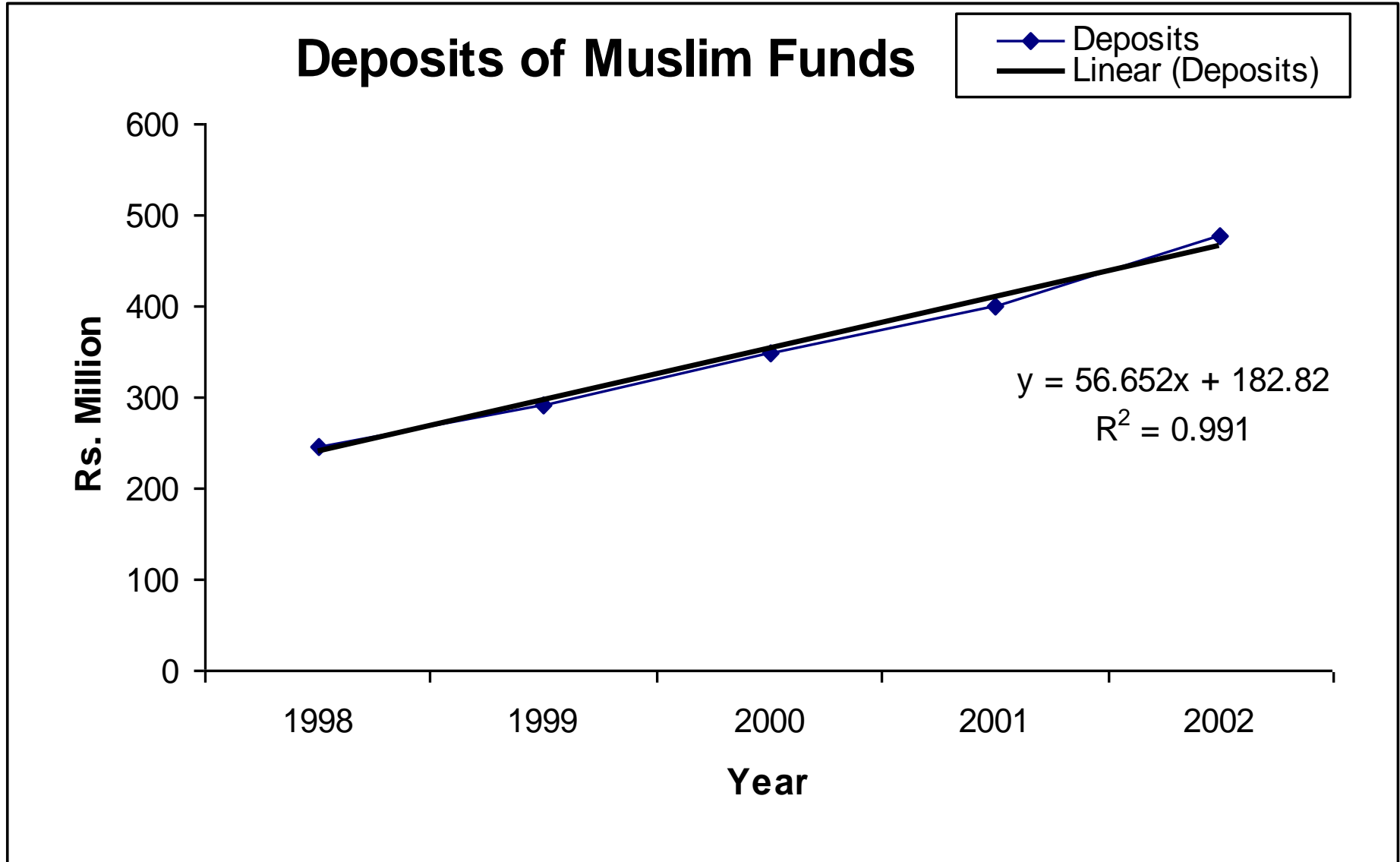
Year	1998		1999		2000		2001		2002	
Name of Funds	Deposits	Advances	Deposits	Advances	Deposits	Advances	Deposits	Advances	Deposits	Advances
Muslim Fund Najibabad	125.92	38.31	145.91	44.51	177.45	47.6	220.28	52.98	263.05	60.95
	(51.11)	(43.48)	(49.84)	(44.73)	(50.79)	(40.52)	(55.22)	(41.63)	(55.2)	(40.99)
Muslim Fund Deoband	47.2	12.18	53.98	14.92	66.95	17.53	69.89	19.88	82.51	20.74
	(19.16)	(13.83)	(18.44)	(14.99)	(19.16)	(14.92)	(17.52)	(15.62)	(17.31)	(13.95)
Muslim Fund Nehtaur	16.94	11.85	20.21	12.68	24.81	14.13	23.91	15.11	29.7	16.49
	(6.88)	(13.45)	(6.9)	(12.74)	(7.1)	(12.03)	(5.99)	(11.87)	(6.23)	(11.09)
Muslim Fund Kirtpur	41.4	14.8	54.9	15.1	60	25	62.6	25	75	34.8
	(16.8)	(16.8)	(18.75)	(15.17)	(17.17)	(21.28)	(15.69)	(19.64)	(15.74)	(23.41)
Muslim Fund Sherkot	14.9	10.96	17.78	12.3	20.2	13.22	22.2	14.3	26.28	15.7
	(6.05)	(12.44)	(6.07)	(12.36)	(5.78)	(11.25)	(5.57)	(11.24)	(5.51)	(10.56)
Total	246.36	88.1	292.78	99.51	349.41	117.48	398.88	127.27	476.54	148.68

Note: Figures in parenthesis show respective percent to total.

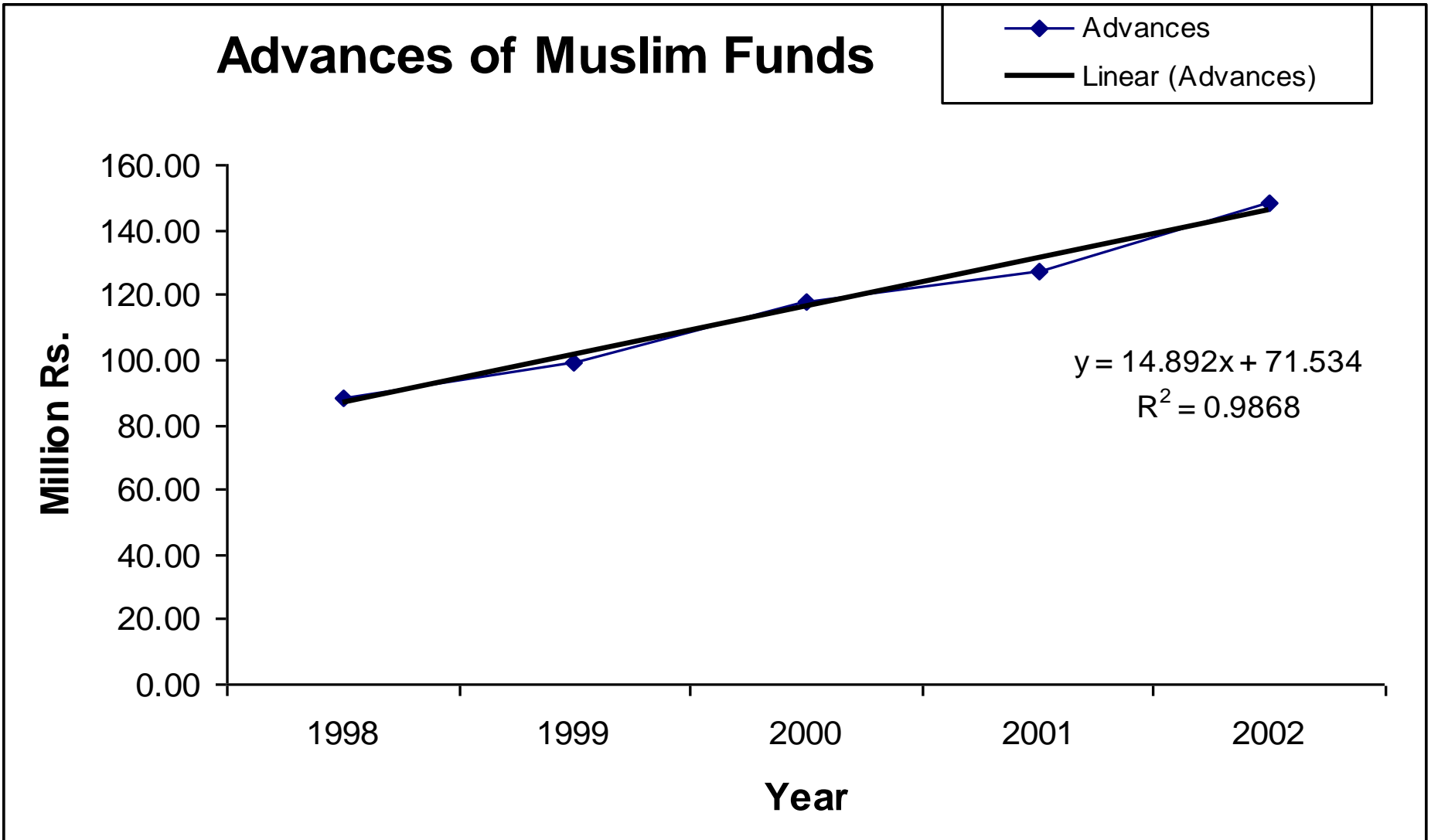
Trends in Deposits, Advances and Public Welfare

Year	Deposits	% Growth	Trend Value	Advances	% Growth	Trend Value	Public Welfare	Trend Value	% Growth
1998	246.37	---	239.47	88.11	---	86.43	2.05	2.44	---
1999	292.68	18.8	296.12	99.5	12.93	101.32	2.6	2.74	26.83
2000	349.42	19.39	352.78	117.48	18.07	116.21	3.7	3.04	42.31
2001	398.88	14.15	409.43	127.28	8.34	131.1	4.03	3.34	8.92
2002	476.53	19.47	466.08	148.68	16.81	145.99	2.83	3.64	-29.78
CAGR	17.69	---	---	13.8	---	---	11.44	---	---

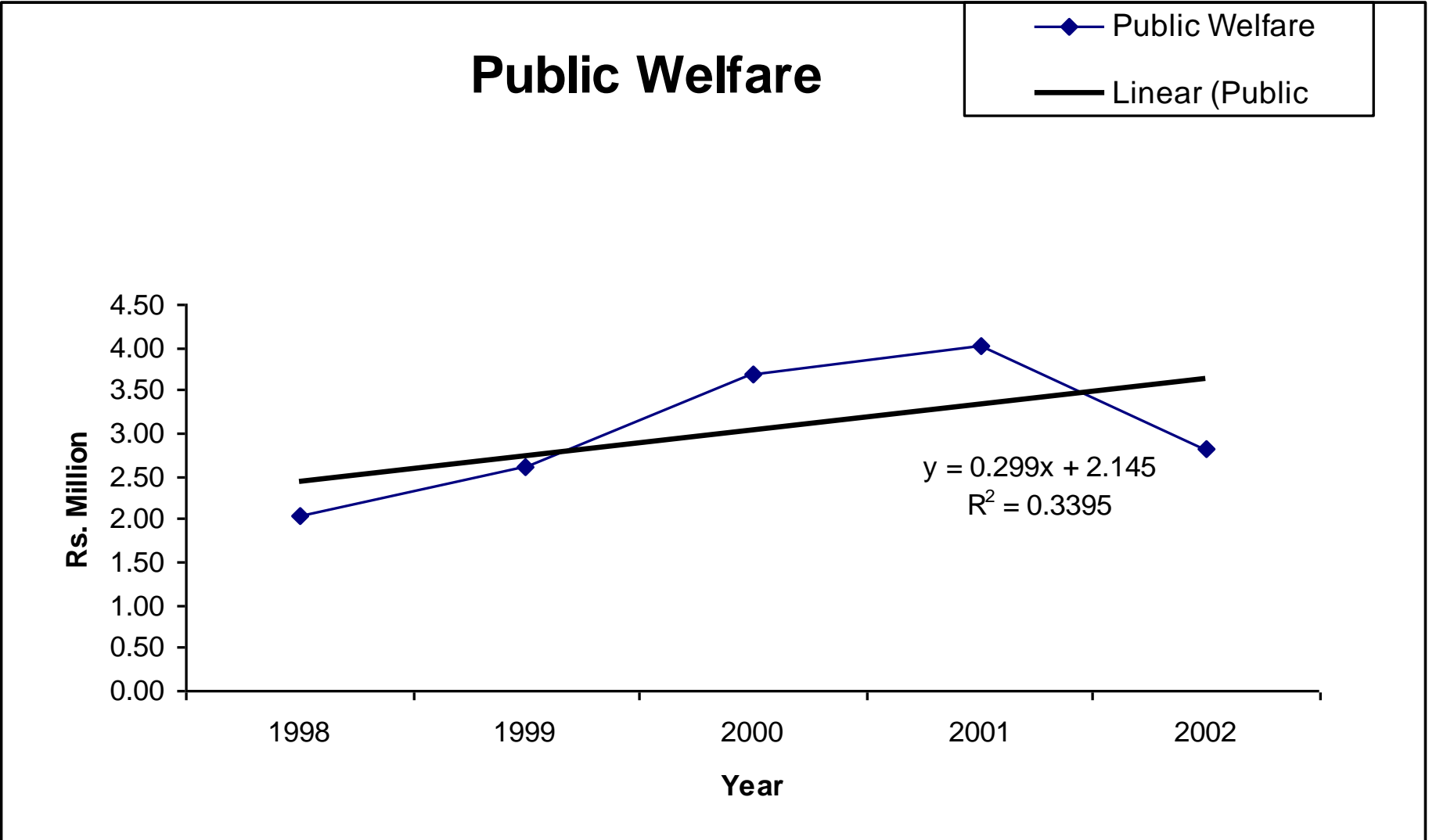
Muslim Funds Deposit Trends



Muslim Funds Advances Trends



Muslim Funds Public Welfare Trends



Problems of Resource Utilisation

- **Legal hurdles**

Islamic financial contracts are not recognized in the country's legal system.

- **Lack of *Shariah* compatible investment opportunities**

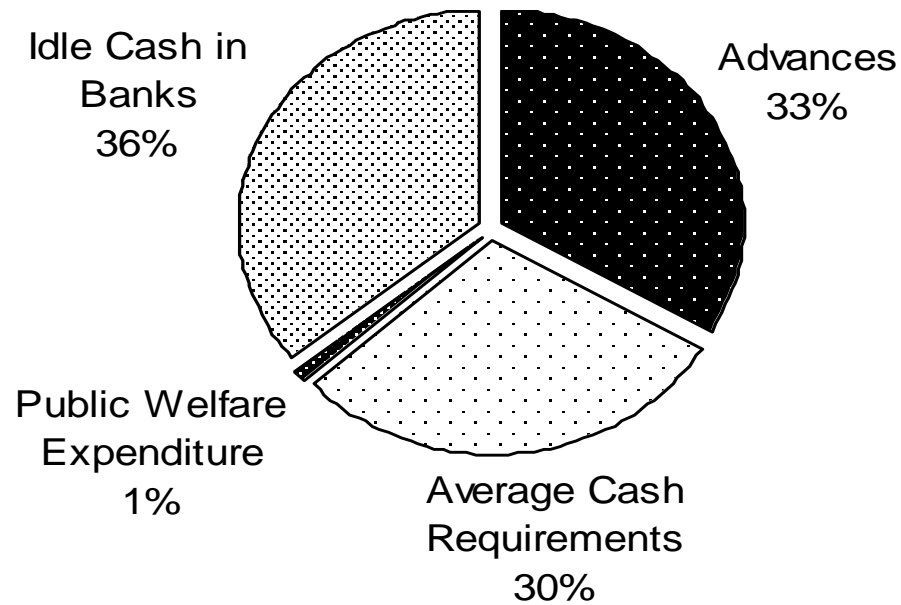
- **Fear Psychoses**

- **Weak capital base.**

Since Muslim Funds are either registered as charities or as trusts, they cannot raise equity capital. Moral hazard and adverse selection also appeared to be major obstacles in introducing the Islamic financing techniques.

Problems of Resource Utilisation

Resource Utilization by Muslim Funds



Problems of Resource Utilisation

- Firstly, about a third of the total deposits is returned to the public in the form of loans and advances.
- The major problem associated with this part is that Muslim Funds do not earn a penny out of these resources.
- **The first problem of resource utilization begins with the question of how to makeup the loss incurred on 33 percent of the total resources advanced to the public.**

Problems of Resource Utilisation

- **Very High Cash Requirement (30%):**
 - Bar on Cheque Facility
 - In-built instability due to their weaker legal sanctity.
 - Seasonal requirement.
 - Frequent Withdrawal
- **So another problem of resource utilization is associated with how best to use about 30 percent resources lying at the branches of the Fund, which produces no returns at all.**

Problems of Resource Utilisation

- **64 percent resources of Muslim Funds are hold up in unproductive uses. This puts a great burden on the remaining 36 percent resources to make the whole operation of the Muslim Funds viable.**
- **Muslim Funds are forced to keep this portion (36%) in conventional banks in the form of term deposits to meet the shortfall accruing out of the use of other two parts of resources and also the costs incurred on employees and other establishments besides the money sums spent on public welfare.**
- **But! Keeping deposits in commercial banks puts a big question mark on the *shariah* compliance of these financial institutions.**