

Research Article

Financial Inclusion of Muslim Minority through Interest-Free Banking in India

S.M. Jawed Akhtar^{1*}, N.P. Abdul Azeez²

Associate Professor¹, Research Scholar², Department of Economics, Aligarh Muslim University, Aligarh-202002, Uttar Pradesh, India

*Email: drsmjawed@gmail.com

²Email: abdulazeeznp@gmail.com

ABSTRACT

The issue of financial exclusion is of course a matter of concern for the nation. Exclusion of the poor from the financial system is a major factor contributing to their inability to participate in the development and growth process. It holds back its victims from progress and development by imprisoning them in a vicious cycle of social deprivation and poverty. The fact that it is closely interconnected with level of education, unemployment, health, family breakdown and exploitation from illegal and predatory lenders has been highly documented. Even after 40 years, since nationalisation of banks, ~60 per cent population do not have access to formal banking and only 5.2 per cent of villages have bank branches. Financial exclusion of a large segment of the population has far-reaching implications for socioeconomic and educational upliftment of the masses. If finance is available without the burden caused by pre-determined interest rates, it will be a welcome development for the marginalised. Interest-free Islamic banking, interest-free micro-finance, can fill this gap.

The 'Sachar Committee Report' revealed the nature and degree of Muslim backwardness. For Indian Muslims, already suffering from severe economic backwardness, financial exclusions have been proved to be an act of economic assassination of Muslims by the so-called secular democratic system. The percentage of households availing themselves of banking facilities is much lower in towns and villages where the Muslim population is high. This exclusion may not be good for our economic growth targets. The financially excluded section reflects poverty and subdues the inclusive growth target. Interest-free banking would have played a vital role for financial inclusion for inclusive growth of the marginalised section of the society in India by offering a set of new contractual possibilities that may bring hitherto excluded citizens into the formal financial system, which would ensure social justice and huge opportunities for future development of the Indian economy.

Keywords: Financial Inclusion, Interest-Free Banking, Sachar Committee Reports, Shari'ah, Socio-Religious Groups, Financial Sector Reforms

FINANCIAL EXCLUSION AND INDIAN MUSLIMS

Exclusion of the poor from the financial system is a major factor contributing to their inability to participate in the development and growth process. Therefore, building an inclusive financial system is the central goal of policy makers and planners across the globe. In simple terms,

'financial exclusion' means lack of access to financial services; but, it takes different shapes, wears many hats and can be manifested in various forms by different groups. The concept of financial exclusion has been the subject of increasing interest and debate due to the fact that it is central to the wider issue of social deprivation.

Indian Muslims had fought well and sacrificed their lives for the freedom of India; but, perhaps the incident of partition shadowed those sacrifices. The Muslims who chose India as their own country were categorised as a minority; and their successors, who had nothing to do with the partition, are now the price of being a minority. Today, Muslims are rated as the most under-privileged community like scheduled castes (SCs) and scheduled tribes (STs) in India. The feeling that Muslims are deprived of sharing the fruits of development has caused a great sense of alienation among them.

Banking institutions have emerged as very necessary for everyone, for both the poor and the rich. Even after 40 years, since nationalisation of banks, ~60 per cent of the population do not have access to formal banking and only 5.2 per cent of villages have bank branches. Financial exclusion of a large segment of the Muslim population has far-reaching implications for socioeconomic and educational upliftment of the masses. These financially excluded classes would not hesitate in sharing a 'return' on their investment, but they often find it difficult to meet the demands of a pre-determined return unrelated to the yield. If finance is available without the burden caused by pre-determined interest rates, it will be a welcome for the marginalized, especially for Small Medium Enterprises (SMEs). Interest-free Islamic banking can fill this gap.

Financial sector policies in India have long been driven by the objective of increasing financial inclusion, but the goal of universal inclusion is still a distant dream. The 'Sachar Committee Report' published in 2006 revealed the nature and degree of Muslim backwardness. For Muslims, as per the Sachar Committee Report based on Census 2001 data, the percentage of households availing themselves of banking facilities is much lower in towns and villages where the Muslim population is high. This is due to a certain mindset prevailing in the banking sector, which has categorised Muslims and Muslim-dominated areas as 'negative zones', as documented in the Sachar Committee Report. Owing to prohibition of interest and for reasons of faith, Muslims are away from conventional banks as referred to in the report of the Committee on Financial Sector Reforms (CFSR) of the Planning Commission headed by Dr. Raghuram Rajan.

The issue of financial exclusion is of course a matter of concern for the nation. The Committee led by Dr. C. Rangarajan submitted its report in January 2008, but this Committee did not comprise any member from the Muslim community nor did it say a single word about the financial exclusion or inclusion of Indian Muslims. It is not supposed that such a committee should focus the report on community-based study, but since there were worth mentioned report on financial exclusion of SCs and STs, it looks desirable to have at least a word about Muslims who are not far better to the SCs and STs. After this report, the Planning Commission set up another high-level committee under the chairmanship of Dr. Raghuram Rajan to suggest financial sector reform. Even this committee had no member belonging to the Muslim community. The committee intervened to >82 officials before presenting a draft report on financial sector reform. Unfortunately, there was no Muslim among the intervened people. It was unfortunate to note that this committee also did not take up the matter of financial exclusion of Indian Muslims nor did it suggest any proposal to rectify the problem confronted by the Muslims.

FINANCIAL EXCLUSION AND ECONOMIC GROWTH

Financial exclusion holds back its victims from progress and development by imprisoning them in a vicious cycle of social deprivation and poverty. It is impossible to measure the overall impact of financial exclusion on the excluded due to the complex nature of this problem. However, the fact that it is closely interconnected with poverty, level of education, unemployment, health, family breakdown and exploitation from illegal and predatory lenders has been highly documented. Wider implications of financial exclusion include social and financial consequences that have a detrimental effect on the excluded. Financial consequences affect the way people access financial services and how they use them, whereas social consequences have a larger impact due to their effect on the consumer's overall economic and social behaviour. Financial inclusion is not only about credit but also involves provision of a wide range of financial services, including saving accounts, insurance and remittance products. An exclusive focus on credit can lead to undesirable consequences, such as over-

indebtedness and inefficient allocation of scarce resources. Moreover, credit provision, without adequate measures to create livelihood opportunities and to enhance credit absorption among the poor, will not yield the desired results.

The majority of Indian Muslims are financially poor and orthodox about Islamic teachings. It is practically just not possible to induce Indian Muslims to enthusiastically participate in interest-based banking and financial businesses. It is a snitch among Indian Muslims to indulge in interest-based monetary system. This snitch is a factor of financial exclusion of a major section of the Indian Muslim community. This exclusion may not be good for our economic growth targets. The financially excluded section reflects poverty and subdues the inclusive growth target. Being a community with 67 per cent poverty and >90 per cent workers associated with the unorganised sector, Indian Muslims need special financial facilities.

The financial consequences of not having a bank account can be really painful due to the inconvenience and extra cost associated with it. The financial consequence of financial exclusion is attracting huge attention in some countries, including Australia, Britain, Canada and the United States, where high charges paid by the unbanked are a real cause for concern. Paying bills also costs the excluded more than those who pay their bills via direct debits, despite the fact that they are the most disadvantaged and the poorest members of the community. They miss out on many deals, such as regular discounts offered to those paying their bills electronically, and on promotional prices often offered at some retail outlets for people who can purchase using debit or credit cards.

Another major problem that is exclusively traceable to financial exclusion is the additional costs paid by the excluded for the same services accessed by their counterparts. In today's world, everybody needs to access financial services as it is almost impossible to survive otherwise, but the irony is that the financially excluded pay more despite being the poorest, which is again disheartening for those affected. In most countries, utility suppliers charge more if the payment is not made through direct debit or electrically transferred, which means the poor will pay more as they are excluded from the highly banked and cashless economy.

One of the most serious financial consequences for the financially excluded arise when they are in financial difficulties and urgently need to access finance, but cannot do so because they are excluded from the mainstream financial system. Hence, they have to raise the required finance from the sub-prime market and from unlicensed lenders such as loan sharks whose charges are extortionate. The financial consequence of raising finance through these intermediaries is very serious and far-reaching for the excluded, who are the poorest and the most vulnerable members of society and cannot afford such extortionate charges. This practice is widespread in the UK where the persistent problem of extortionate credits from unlicensed money lenders and illegal 'loan sharks' is a real cause for concern. It was estimated that in 1994, some three million households in the UK depended on such sources of credit, which charge interest rates of up to 500 per cent and often enforce repayments by threat of violence. The Department of Trade and Industry (DTI) subsequently commissioned a report on extortionate credit in the UK in 1998, which estimated that only a 'few hundred thousand at most' suffered from extortionate credit of this kind. However, this is still a serious problem, given that such people are likely to be among the most vulnerable in society.

Financially excluded households are more likely than any other to use the services of companies such as provident cheques and Shopacheque, which specialise in providing high-interest loans to low-income households and can charge repayment rates of between 100 per cent and 500 per cent APR. Low-income customers also make higher-than-average use of loans from pawnbrokers, such as cash converters and credit retailers, who buy and sell at high interest rates. For instance, it is quite normal for a poor person to get some durable goods like a fridge or a TV and end up paying double the amount they had originally borrowed because the interest charged was extortionate, as a result of poor financial skills and the absence of alternative financing arrangements.

HOW MUSLIMS ARE FINANCIALLY EXCLUDED FROM THE CREDIT SYSTEM

Muslims constitute ~12 per cent of all account holders in Scheduled Commercial Banks (SCBs). Although this is

close to their share in the total population (13.4 per cent), the share of other minorities is slightly more (8 per cent) than their share in the total population. It is noteworthy that the share of Muslims in the ‘amount outstanding’ is only 4.7 per cent compared with that as high as 6.5 per cent for other minorities. The notion that Muslims do not participate in banking because of its “un-Islamic” interest-based system is a myth. Specific credit measures can bring about a substantial improvement in the economic status of Muslims. However, their share in loan accounts is much lower than their population share, and their share in loan amounts outstanding is even worse. On an average, the amount outstanding (an indicator of loans sanctioned) per account for Muslims is about half that for other minorities and only one-third of ‘Others’. Although these trends can be observed for both public and private banks, the share of Muslims in amount outstanding is 2 per cent higher in private sector banks.

Analysis of data available in the Sachar Committee Report shows that there is an annual financial exclusion

of Indian Muslims worth over Rs. 22,000 crores. The following table shows how Indian Muslims are being financially excluded. Due to errors in data of 25 Schedules Commercial Banks (SCBs), the Sachar Committee used data of only 31 SCBs. The analysis of these data shows annual financial exclusion of Indian Muslims worth Rs. 11,170.40 crores.

If we assume that the other 25 SCBs the data of which had been excluded by the Sachar Committee would follow the same ratio in deposit and credit amounts, the annual estimated deposits and outstanding loans at 25 SCBs could be as following (Table 1a):

If we sum up the figures of 31 and 25 scheduled commercial bank deposits and loan amounts, there is an estimated annual financial exclusion of Indian Muslims over Rs. 15,025 crores due to the deficit in deposit loan ratio for Muslims (Table 1b).

Assuming that deposits at private and cooperative banks along with Muslim NRI contributions in deposit accounts

Table 1

Loans/Deposits	Rupees in crores		Percentage to Muslims
	All SRCs	Muslims	
1. Outstanding loan amounts under PSA granted by 31 SCBs	328,755.00	15,685.00	4.77
2. Loans disbursed by SIDBI	26,592.58	124.12	0.47
3. Production refinance by NABARD	9,167.65	290.83	3.17
4. Investment refinance by NABARD	8,485.48	333.41	3.93
5. Total outstanding loans by 31 SCBs, SIDBI and NABARD	373,000.71	16,433.36	4.41
6. Total individual deposits at 31 SCBs	528,541.00	39,112.03	7.40
7. Total deposit loan ratio (7=5/6)	70.57	42.02	-28.56
8. Net annual financial exclusion of Indian Muslims	Rs. 11,170.40 crores		
a. Estimated deposits and loans at 25 SCBs			
9. Total outstanding loans under PSA accounts by the rest of 25 SCBs	146,756.23	7,001.78	4.77
10. Total individual deposits at rest of 25 SCBs	235,940.70	17,459.61	7.40
b. Estimates of all SCBs, SIDBI and NABARD			
11. Estimated total individual deposits at all 56 SCBs	764,481.70	56,571.64	7.40
12. Estimated total credit issued by 56 SCBs, SIDBI and NABARD	519,756.94	23,435.14	4.53
13. Estimated total credit deposit ratio (13=12/11)	67.99	41.43	-26.56
14. Net annual financial exclusion of Indian Muslims	Rs. 15,025.43 crores		

Note: SIDBI-Small Industries Development Bank of India, NABARD- National Bank for Agriculture and Rural Development, SCBs-Schedules Commercial Banks.

Source: Sachar Committee Report.

SRCs: Socio-Religious Categories

are one-third of SCB individual deposits, the total amount of financial exclusion will go beyond Rs. 22,000 crores.

For Indian Muslims, already suffering from severe economic backwardness, this sort of financial exclusions has been proven to be an act of economic assassination of Muslims by the so-called secular democratic system. The Sachar Committee Report should have pointed out this financial exclusion of Indian Muslims and suggested measures to check this exclusion. Should our secular democratic system not allow Indian Muslims to transact interest-free banking to get rid of Riba, which is strictly prohibited in Islam?

INTEREST-FREE BANKING FOR FINANCIAL INCLUSION OF INDIAN MUSLIMS

Islamic banking, also referred to as interest-free banking, has been gaining increasing popularity among regulators in the recent past. It is a system of banking activity that is consistent with the principles of Islamic law Shari'ah¹ and its practical application through the development of Islamic economics. Shari'ah prohibits payment or acceptance of interest fees for lending and accepting of money, respectively, for specific terms, as well as investing in businesses that provide goods or services considered contrary to its principles or forbidden. Although these principles were used as the basis for a flourishing economy in earlier times, it is only in the late twentieth century that a number of Islamic banks were formed to apply these principles to private or semi-private commercial institutions within the Muslim community.

In the absence of interest-free banks, cooperative credit societies like AICMEU's Baitulmal in Mumbai are somehow trying to meet the financial needs of the Indian Muslim community. Had these societies got opportunities to work as interest-free banks, it would have played a vital role in financial inclusion for inclusive growth of the marginalised section of the society in India. The Indian Muslim are looking ahead to have access to interest-free banking in the form of formal financial sector in India so to meet their financial needs. In the absence of Islamic banking and finance in Indian, an Indian Muslim expresses his financial sufferings in the following words:

“Interest based banking system in India is a problem for us because no bank in India is allowed to work without

interest and my religious ethics driven from Islam strictly restrains me to indulge in interest based banking. So despite having need of banking services for our economic transactions, I never approached to any bank for deposits or credits. One day I come to know about AICMEU's Baitulmal Cooperative Credit Society Ltd., which is running on interest-free basis. Though it is not a bank, recently I opened an account there and have taken interest – free loan from there. Had Indian Government allowed interest – free banking in India, people like me would have financially included into the mainstream which are in millions spread in different regions of India.” Idris Tanvar (Male, 36 years) Jogeshwari, Mumbai.

NEED FOR ISLAMIC BANKING IN INDIA

The precise lesson that the Raghuram Rajan Committee on Banking Sector Reforms in its report had recommended was the introduction of Islamic banking in India, thus creating a flutter of excitement in the Muslim investment community. Rajan prefers the term ‘interest-free banking’ instead of ‘Islamic banking’. ‘Interest-free banking offers a set of new contractual possibilities that may bring hitherto excluded citizens into the formal financial system; interest-free banking does not mean charity, of course. It only means that the investor/lender does not get interest, but gets compensated through a form of profit-sharing.’ This involves equity-based financing and risk sharing. When a conventional bank extends a loan, it takes zero risk, as the loan has to be repaid with interest irrespective of whether the business succeeds or fails. However under Islamic banking, if the borrower makes a loss, ‘loan’ liability is mitigated as the bank will share the loss. On the other hand, if he makes a profit, he will have to share it with the lender at a pre-determined ratio. This could make a big difference for poor and small entrepreneurs because chances of the borrower falling into a debt trap are less.

Britain, with a population of <2 million Muslims, already has six Islamic banks, of which three were set up in 2008. According to estimates, globally, assets worth \$300 billion are under the management of Islamic banks at present, and this is set to cross \$1 trillion by 2013. People are starting to see that Islamic banks are not a threat, but an opportunity for economic growth. After the collapse of leading Wall Street institutions, notably Lehman

Brothers, and the subsequent global financial tsunami and economic recession, Islamic banking is seriously being considered and has emerged as a possible alternative to conventional banking because of the following reasons:

- It is based on ethical and Socially Responsible Investments (SRI)
- It aims at equity and justice and leads to poverty alleviation
- It adds a new dimension to assets and actual projects aiming to support real economic growth instead of financial engineering; and
- It provides services to under-banked populations ignored by conventional banks.

In India, with the world's second largest Muslim population of 154 million, the lack of Islamic banking is a barrier to the flow of substantial funds into the market. There is at least Rs 5,000 crores of unclaimed interest in Kerala alone. People prefer to invest their money on gold or jewellery, which is the unproductive kind of investment from an economic point of view. There are at least 300 Islamic societies, which accept deposits and lend money, but cannot make a business of it because of the Shari'ah prohibition of interest. Moreover, they are unable to convert themselves into banks because the government will not permit any form of banking without interest. Some of them have collected more than Rs 200 crores in interest-free deposits; but, they do not have any avenue to invest that money. In view of strong prohibition against any kind of involvement in interest, in Islam, a pious Muslim is reluctant to keep his savings even in a current account with a bank, which would utilise his funds for earning interest. In order to make deposits in a current account fully compatible with Shari'ah, we may suggest that deposits mobilised from Muslims in current accounts by a bank should be utilised in making interest-free loans preferably to Muslims and the government. Another example is of the funds from the Gulf. They are losing millions of petro-dollars, which are now eluding a mature market like India and going to smaller places like Malaysia. However, the good thing is that SEBI has now started giving licences for Shari'ah - compliant portfolio products.

Islamic banking is an alternative system of banking, which ensures social justice. There are some innumerable

success stories of Islamic finance and banking that India needs to learn from. India is the safest and most secure destination for investments, and an Islamic banking system in the country could attract more investment from the Gulf countries. India is best positioned to absorb almost \$3.5 trillion worth of Arab investments. If the Islamic banking system is established in the country, it could also attract investments from a section of Muslims who are not interested in putting money in banks for interest.

Islamic banks are helpful to non-residents of India (NRIs) and to those who return shortly to India after losing or resigning their jobs or business abroad. Islamic banking is a profit- or loss-oriented bank. The Islamic bank's backbone is its profit. We see many poor agriculturists and business people committing suicide because of the financial crisis in India. They do so because of the great interest on loans sanctioned by the nationalised and private financing companies of India. Here is the solution to the problem of interest. Islamic banks are interest-free banks. It is a corporation to enable the poor and the rich to live a better life with options to education and business.

In India, Muslims are the second largest population after Indonesia; the population of Indian Muslims is estimated to be ~150 million. In spite of this, India is routinely ignored in the vast majority of book articles on the subject of Islamic banking and/or investments. Dow Jones has the Islamic index and the FTSE of Britain has not only the Islamic Index but also a fully fledged Islamic bank, but unfortunately there is not a single Islamic product or an Islamic benchmark in the Indian investment environment. Even Gross Domestic Product (GDP) is the fact that India is not covered and not included for any of their research work by any Islamic institution or bank, although India is a big market for Islamic investments, and no research work of any research institution can be complete without including India. India has a good Islamic structure that provides opportunity for interest-free investment and finance, which gives us lots of benefit. Since the 1991 liberalisation reforms, India's GDP has consistently grown at over 5 per cent and has now crossed the 8 per cent mark. In fact, India is expected to be one of the world's two largest economies by 2050. The huge capital inflows into the country mirror the

confidence of foreign investors in Indian economy's ability to match this expectation. India's institutional framework is well suited for the world economy. Corporate India has been performing well and this factor, coupled with strong macroeconomic fundamentals, growing industrial and service sectors, provides a great potential for investment in the Indian economy.

INTEREST-FREE BANKING IN KERALA

In the absence of an alternative to the convention based on interest, in the state of Kerala where Muslims make up ~25 per cent of the population of Kerala, which was 31.8 million according to the 2001 Census, it is reported that thousands of crores earned in the form of interest are kept in suspended accounts, as believers do not claim it. Muslims both rich and those employed in the Gulf invest their money on gold and real estate, which are not productive investments. They also spend lavishly in marriages and other rituals, and many of them fall into the trap of bogus financial institutions, thus losing their hard-earned money. Therefore, there is a strong case to have an alternative system based on equity instead of the debt-based banking system catering and caring to the unbanked segments more specially of the marginalised and minorities, particularly Muslims in the country.

The state of Kerala may have been the most suitable place for introducing such a financial system in India, because of its diversity in resources and possible availability of funds from its large NRI population. If it had succeeded, the benefits of such an innovative investor-friendly financial system could have been enjoyed by all sections of society. Unfortunately, some people use their personal and political clout for propagating negative causes. However, the Kerala government deserves all appreciation for its brave decision to set up an interest-free 'monetary institution', which should be seen as a step forward in the fight against the decay of the prevailing financial system. If you see this through the prism of Islam, you will see a problem. However, if you see Islamic banking through the prism of economic benefits, you will see a huge opportunity (Rajan Committee).

In 2005, the Government of India asked the Reserve Bank of India to examine Islamic banking instruments and

constituted a working group headed by Mr. Anand Sinha, Chief Manager, Department of Banking and Operation and Development, along with senior bankers from SBI, ICICI and Oman International Bank that came up with report in 2006 which stated: 'In the current statutory and regulatory framework it would not be possible for banks in India to undertake Islamic banking activities and concluded that if the banks are allowed to do Islamic banking appropriate amendments are required in Banking Regulations Act 1949'. In August 2007, the Government of India under the Planning Commission constituted a high-level Committee on Financial Sector Reforms (CFSR) under the chairmanship of Dr. Raghuram Rajan, former chief economist, IMF along with eleven other members who are the finest financial and legal minds in the country. The CFSR submitted its final report in September 2008 to the Prime Minister with the specific recommendation of interest free-banking in the country:

'Another area that falls broadly in the ambit of financial infrastructure for inclusion is the provision of interest-free banking. Certain faiths prohibit the use of financial instruments that pay interest. The non-availability of interest-free banking products (where the return to the investor is tied to the bearing of risk, in accordance with the principles of that faith) results in some Indians, including those in the economically disadvantaged strata of society, not being able to access banking products and services due to reasons of faith. This non-availability also denies India access to substantial sources of savings from other countries in the region. While interest-free banking is provided in a limited manner through Non Banking Financial Companies (NBFCs) and cooperatives, the committee recommends that measures be taken to permit the delivery of interest-free finance on a larger scale, including through the banking system. This is in consonance with the objectives of inclusion and growth through innovation. The committee believes that it would be possible, through appropriate measures, to create a framework for such products without any adverse systemic risk impact.'

ATTEMPT TO DENY DEMAND FOR INTEREST-FREE BANKING

The demand of interest-free banks for Muslims as raised before delegates of the Sachar Committee was not only

denied but also perverted with just the following three sentences.

“Some felt that it was desirable to create separate financial institutions for Muslim entrepreneurs. Others argued that the existing minority financial institutions have been a failure and a decentralized micro-credit schemes through Self-Help Groups (SHGs) is the most viable option. Some existing SHGs for Muslim women entrepreneurs that have been successful were cited as examples that could be emulated.”

Here in the first sentence, it seems that the Committee with the intention to avoid discussing ‘Interest-free banking’ instead of clarifying the nature of desired ‘separate financial institution’ for Muslims just said that ‘Some felt that it was desirable to create separate financial institutions for Muslim entrepreneurs’. The very next sentence further sliced the demand by reporting that others argue about minority financial institutions, stating that ‘the existing minority financial institutions have been a failure’ (means Muslims are inefficient to manage interest-free financial institutions). Again with intention to avoid any possible uproar over interest-free banking, instead of discussing about causes of these failures (and also about the role of government authorities in such failures), in the same sentence, the committee tried to divert the topic towards micro-credit schemes, quoting that ‘and a decentralized micro-credit schemes through Self-Help Groups (SHGs) is the most viable option’. The third sentence further strengthens this attempt of diversion by quoting that ‘Some existing SHGs for Muslim women entrepreneurs that have been successful were cited as examples that could be emulated’.

Thus, without citing the ‘taboo’ words ‘Islamic banking’, government officials not only denied the demands of interest-free bank in India and left the Muslims deprived of their religious need to transact interest free-banking but also tried to divert Muslim’s attention from interest-free banks to micro-credit schemes, where the rate of interest is relatively higher than SCBs, so that the scope to charge higher interest to the community could grow.

CONCLUSION

We can conclude that the access of Muslims to bank credit is low and inadequate. This means that they are a

financially excluded community in India. The average size of credit is also meagre and low compared with other socio-religious communities both in public and private sector banks. The position is similar with respect to finance from specialised institutions such as **Small Industries Development Bank of India** (SIDBI) and National Bank for Agriculture and Rural Development (NABARD). The Census, 2001 data show that the percentage of households availing banking facilities is much lower in villages where the share of Muslim population is high. One of the reasons for such an outcome could be non-availability of banking facilities in these villages. Financial exclusion of Muslims has far-reaching implications for their socioeconomic and educational upliftment. To empower Muslims economically, it is necessary to support the concept of introducing and implementing interest-free banking system by ensuring a smooth flow of credit to them. Thus, interest-free financial system is the best method for financial inclusion of Indian Muslims and for mobilising resources in various investment programmes, which provide great opportunity for the economic growth of our country.

NOTES

The Quran and Hadith clearly specify the guidelines for individual, social, organisational, governmental behaviour, and thus become the basic pillar for any Islamic system, with the banking and financial system being no exception. They are the moral code and religious law of Islam.

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