

A Survey on Awareness and Knowledge of Islamic Microfinance in India

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Abstract

Microfinance provides financial services to small businesses and poor individuals who lack access to conventional banking. Conventional microfinance institutions have expanded their operations in the last two decades. Among the many factors that were responsible for the microfinance crisis in India, one major factor was the high interest rate which still continues to exist. The giants of Microfinance in India until today are known to be charging high interest rates. Approximately 77% of India's population continues to be below poverty line. Moreover, on looking into the population of the financially excluded, the majority of them are Muslims who are of the belief that giving or taking of interest is not permissible. Hence, study on interest free or Islamic microfinance in India can help eradicate poverty not just among Muslims but in India as a whole. This study aims to gauge the awareness and knowledge of Islamic microfinance among the general public of India. The results of this study will help translate into actions in areas needed for in depth penetration and acceptance of Islamic microfinance in India. The paper adopts a Quantitative approach where Questionnaire is distributed online by way of random sampling and 303 responses were received. Data is analyzed using SPSS22 software. The findings show that in general the public is aware of the term Islamic microfinance but with regards to the products and services offered by Islamic microfinance institutes, the level of awareness is very low. This gives an insight to in which direction the attention and efforts are currently needed to raise public awareness of Islamic microfinance.

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Keywords:

Islamic Microfinance;
Awareness;
Knowledge;
India

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1. Introduction

The current system of the commercial banking is based on minimizing risks and maximizing profits. Trade, commerce and industry are sectors served well by it as the risks in these arenas can be measured rather easily and quick returns are possible. Specialized financing institutions were created to cater to the needs of specialized sectors like agriculture and small and large-scale industries which were otherwise left out by the commercial banking system.

However, even with the presence of the entire banking and financial system and financial institutions, a large part of the population is still neglected and unable to avail their facilities. These are those who are poor and the poorest of the poor. According to the the World Bank (2018), about 10% of the world's population is living on less than US \$1.90 a day. Their absence from the market as highlighted by some of the non-governmental organizations is due to factors like high cost of financing, high cost of processing and the system of collaterals. Apart from these, another factor leading to the absence of financial inclusion of the poor sector is the concentration of the commercial banks in Urban Areas.

It would not be wrong to say that these issues were expected to be tackled by the emergence of Islamic Banking also known as the interest free banking. Islamic Banks are governed by the principles of *Maqasid al Shari'ah* with the objectives of keeping intact the social equality and economic stability giving importance to the Islamic model over a capitalistic model on the grounds of equity and Justice. But unfortunately due to the growing competition of the Islamic banks with its conventional counterpart, Islamic banks are soon becoming "banking of the rich, by the rich, for the rich." (Obaidullah, 2008)

This is where microfinancing plays a crucial role in tapping into the population untouched by the banking system. Microfinance takes its services to the rural areas keeping the cost of processing as low as possible. The concept of collateral in the conventional banking system which tends to serve the needs of only the rich since they have access to collateral is countered by microfinance by providing small loans at high interest rates for a shorter duration without any collateral mainly to the low-income population who are deprived of bank credit. (IBEF, 2013) Microfinance does not just provide financing to the poor but also aims to serve as an economic development tool providing a wide range of financial and non-financial services empowering the poor to work their way out of poverty.

The Islamic world is an enormous part of the world's population with over 1.2 billion comprising of six regions: North Africa, Sub-Saharan Africa, the Middle East, Central Asia, South Asia, and Southeast Asia. India is host to the third largest population of Muslims in the world after Indonesia and Pakistan (Census, 2011).

But even with the presence of microfinance, Muslim societies all over the globe and also in India fare far worse than others when it comes to addressing the problem of poverty. Muslim population has fallen prey to Financial Exclusions and there are two major reasons leading to this; first being extreme poverty and this factor is common to all societies that are financially excluded regardless of their ethnicity. The second is prominent and mostly limited to Muslim societies and that is the societies' apathy to the interest-bearing micro-credit facilities. The lives of the Muslims are governed by Islamic principles and morals. They give preference to Shari'ah compliant products even during difficult times therefore being religiously self-excluded from the financial institutions and also conventional microfinance. This is where the emergence of Islamic microfinance or Interest free microfinance becomes essential to the financial inclusion of the Muslims population. The research finds no empirical literatures on the awareness and knowledge of Islamic microfinance in India. Therefore, the objective of this paper is to examine the public awareness and knowledge of Islamic microfinance in India.

This paper is organized into six sections. Section two discusses the Islamic microfinance concept and its models. Section three gives a brief picture of the literature review on Islamic microfinance, whereas section four explains the research methodology. Section five describes the findings of public knowledge and awareness of Islamic microfinance. Section six concludes the paper.

2.0 Islamic Microfinance

Islam is a religion with a very balanced approach to a man's life. It is concerned with the material well-being of man as much as it is for the spiritual well-being of man. It always encourages self-employment and self-independence over simply donating food and money to the poor and the needy. Although Islam imposes charity in the form of Zakah and encourages giving voluntary charity which is sadaqah, however, simultaneously it tries to minimize the beneficiary's dependence on charity and seeks to turn around the poor conditions of the needy by making them self-independent to generate income and wealth of their own.

As in the hadeeth stated in the Book of Sunan Abu Dawood¹, that Anas ibn Malik reported:
A man from the Ansar came to the Prophet, peace and blessings be upon him, and begged from him. The Prophet said, "Have you nothing in your house?" The man said, "Yes, a piece of cloth, a part of which we wear and a part of which we spread on the ground, and a wooden

bowl from which we drink water.” The Prophet said, “Bring them to me.” The man brought these articles to him and the Prophet took them in his hands, and he said, “Who will buy these?” Someone said, “I will buy them for one coin.” The Prophet said twice or thrice, “Who will offer more than one coin?” Someone said, “I will buy them for two coins.” He sold them for two coins and the Prophet said, “Buy food with one of them and give it to your family. Buy an axe and bring it to me.” The man brought it to him. The Prophet fixed a handle on it with his own hands and he said, “Go gather firewood and sell it, and do not let me see you for a fortnight.” The man went away and gathered firewood and sold it. When he had earned ten coins, he came and bought a garment and food. The Prophet said, “This is better for you than for begging to come as a blemish on your face on the Day of Resurrection. Begging is appropriate only for three people: one in severe poverty, one in severe debt, and one who must pay a difficult compensation.”

This famous hadith not only addresses the importance of leading the ‘below poverty line sector’ to become self-independent, but also highlights how to devise a successful microfinance program keeping in mind the key principles and components of the strategy to combat poverty.

The ease at which Prophet (peace be upon him) the leader of all Muslims was accessible to the needy for economic and financial matters showed the importance of financial inclusion of the poor. The inadequate evaluation of the client’s financial condition is one of the reasons why many microfinance programs have failed in the past. The Prophet (peace be upon him) empathetically enquired about the beggar’s assets and financial health. The Prophet then transformed the unproductive asset into an income generating one by means of auction method selling his asset and extending the economic benefit to the community at large.

After receiving two coins, the beggar was asked to buy food for his family with one coin and an axe with other showing the importance of meeting the basic needs of the poor prior to making investments. The gesture of Prophet (peace be upon him) fixing the axe himself illustrates the importance and the need of direct involvement of microfinance institutions towards capacity building.

The Prophet (peace be upon him) asked him to take the axe and go find firewood and not to be seen a fortnight till he is able to achieve the benefits. This concept of monitoring and imparting technical assistance to the beneficiary for running their business and generating income is greatly emphasized amongst the microfinance professionals.

The man earned 10 coins and returned to Prophet (peace be upon him) after buying garment and food with some coins. This highlights the concept of transparent accounting of operational result. Lack of proper documentation and accounting by beneficiaries is one of the major struggles faced by microfinance today (Obaidullah, 2008).

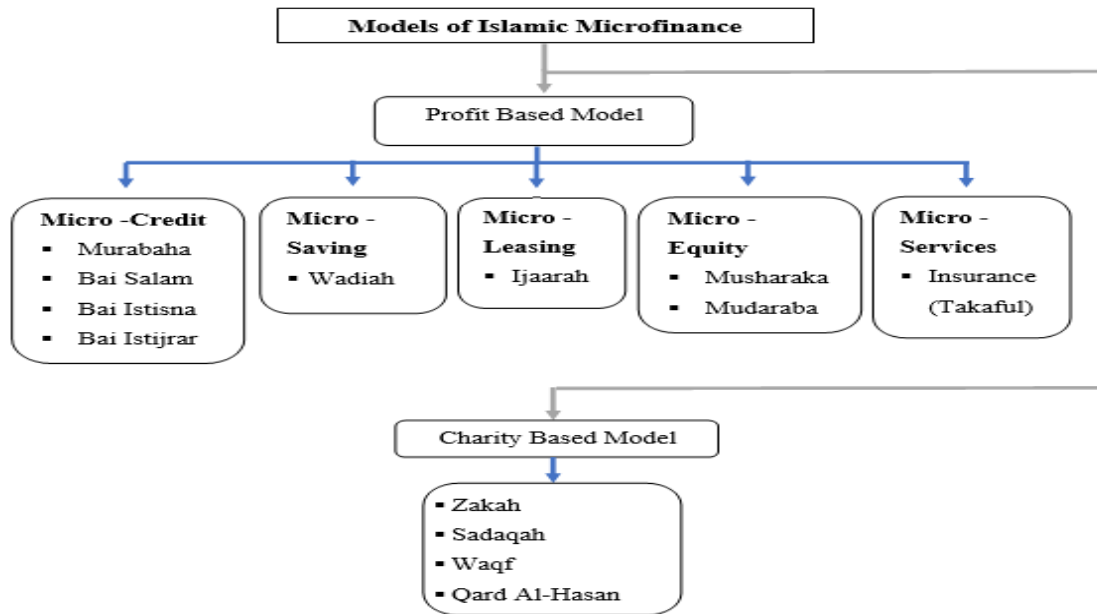
In the end of the Hadith, Prophet (peace be upon him) discouraged seeking charity and made exception for only three types of people; one who is excruciatingly poor, one who is in serious amount of debt and the one who has to pay compensation and is unable to do so.

2.1 Concept of Islamic Microfinance

Microfinance as looked in to earlier is a form of service that is greatly shaped and molded by cultural beliefs and customs. Microfinance and its existing models can be shaped to adjust to the lifestyle of Muslims especially when it comes to dealing with financial transactions (Usman & Tasmin, 2016).

Islamic Microfinance is an innovation in the field of microfinance that aims to be in line with Shariah and ethical considerations of Islam. Since Islamic microfinance stems from Islamic finance, its basis its foundation on the Quran and Sunnah (teachings of Prophet Muhammad, peace be upon him). It prohibits dealing with interest, speculation and uncertainty in business transactions and promotes trade based on profit and loss sharing (Bhuiyan, Siwar, Ismail, & Talib, 2011). It seeks to provide financial aid to those involved in production, producing goods and services by using the concept of profit and loss sharing, leasing and sale whilst also taking into consideration the ethical and moral values in business. The motive behind using profit and loss sharing (PLS) arrangement in business is because of the belief that it is a more efficient way of resource allocation and creates balance and justice as the risk is shared between the entrepreneur and the financier (Rahman, 2007).

2.2 Models of Islamic Microfinance



2.2.1 Charity Based Model

Charity plays a major role in the development of the microfinance industry. Both conventional and Islamic microfinance can mobilize external funds and savings of their clients as a source of funds, but Islamic Microfinance has an upper hand maximizing its social services by tapping into the religious institutions of charity to fulfil basic needs of the poor and acting as a safety net. The religion of Islam sheds immense importance on assisting the poor and the destitute to meet their basic necessities. Charity in Islam is divided into two types, one that is compulsory, and the other is voluntary.

2.2.1.1 Zakah

Zakah meaning purification and growth, one of the fundamental pillars of Islam, is made compulsory on every mature Muslim with a sound mind who has in possession more than the minimum prescribed wealth (in the form of gold, silver, currency and the inventory of trade and livestock and agricultural output) for over a period of one year (in some types of wealth). The amount to be given varies with forms of wealth but mostly, it is 2.5% of the wealth in possession (Obaidullah, 2008).

Of the eight categories mentioned in the Quran in Surah At-Tawbah, verse no. 60, the first three categories along with the sixth category are relevant to microfinancing and alleviation of poverty. Zakah is for the poorest of the poor and the needy and destitute acting as a safety net to take care of their basic necessities. The salaries of the personnel employed for the purpose of collecting the Zakah from people may also be paid from the pool of Zakah collected. Hence, Zakah may be used to cover operational costs of managing organizations set up solely for the collection and disbursement of Zakah. Zakah may also be used to pay off debts incurred to fulfil basic needs.

Some point out that Zakah funds should focus on empowering the poor rather than meeting their immediate consumption needs. They believe that otherwise the program permanently makes the poor dependent on Zakah. Hence, the shift from providing basic necessities to investment in education, health care and other social welfare projects in turn dries up the Zakah funds leaving them inadequate to assist the poorest of the poor. Therefore, in any program dealing with empowerment through Zakah must always accord satisfying immediate basic needs of the poorest of the poor as top priority.

According to Obaidullah (2008), only after ensuring the basic needs of the poorest of the poor are met, can Zakah fund disbursement be utilized for providing skill improvement programs, for startup capital in the form of loans (Qard Hasan) or in the form of micro equity without expecting returns. This will ensure sustainability of the poor moving them from below to above the poverty line status.

2.2.1.2 Sadaqah

Sadaqah meaning sincerity is a voluntary form of charity. It is a form of worshipping Allah by giving money without it being obligatory in Islam. Also, it doesn't necessarily have to be cash but can be in any form or shape without any specific limits or guidelines.

2.2.1.3 Waqf

Waqf, also a voluntary act, literally translates to 'hold, confinement or prohibition' (Kahf, 2003). Any property from benefit can be derived whilst maintain the essence of the property is the distinctive perpetuity characteristic of Waqf (Obaidullah, 2008).

Due to Waqf's principle of perpetuity, scholars differ on the subject of 'Cash Waqf'. When cash waqf is used for mudarabah or given out as loan, the cash endowed is then distributed to the borrowers and this is considered impermissible since the asset in its physical state is being distributed and not its usufruct. Notwithstanding this, according to Obaidullah (2008), cash waqf along with other physical forms of waqf can be integrated in the model of microfinance thereby assisting in the ultimate goal of meeting the needs of the poor and poverty alleviation.

2.2.1.4 Qard Al-Hasan

Qard al-Hasan meaning a benevolent loan, it is an interest free loan where any excess over the capital on return, in terms of quantity or quality or tangible item or benefit in any form, is considered to be interest which is prohibited in Islam.

Islam immensely encourages Qard Al-Hasan to the extent that giving loan is equated to loaning to Allah SWT Himself and is repaid by Allah SWT many folds. At the same time, debt is discouraged and is considered as a sin that can bar one from entering paradise if he fails to repay back his loan.

According to Obaidullah, (2008), Qard al-Hassan can be used as an instrument of savings mobilization and financing in a microfinance institution which gives rise to the establishment of Qard al-Hassan funds. In places like Iran, studies have shown that the average amount of saving deposits in Qard al-Hassan Funds are much larger than those in banks.

2.3.2 Profit Based Model

The above-mentioned models are strictly charity-based models, but Islam does not restrict microfinance activities to not for profit modes but encourages for profit trade. It's the for-profit financing that provides sustainability to Islamic Microfinance Institutions. A cursory look at the microfinance services such as micro savings, micro credit, micro equity, and micro takaful will shed light on the application of these modes in IMFIs.

2.2.2.1 Micro-Credit

An alternate to conventional loan is a trade-based credit that permits the client to make use of the productive enterprise while deferring the payments to future time periods. This notably increases employment rates and income level whilst also improving human development and quality of life (Saad, Mohamed, S.Le, Haneef, & Ghani, 2013). Murabaha (Bai-Muajjal), Bai-Salam, Bai-Istisna and Bai-Istijrar are some of the products offered by mainstream Islamic financial Institutions.

- **Murabaha (Bai-Muajjal)**

Murabaha financing is used when a customer needs to obtain funds to purchase equipment, machinery, and other assets for commercial purposes and it is not meant to pay for utilities or salaries. Murabaha is a contractual buying and selling at a mark-up profit where the seller must disclose to the buyer the actual cost of the commodity and profit margin added (Saad et al., 2013).

Bai Muajjal-Murabaha is a sale on credit where payment is to be paid at a fixed future date or within a fixed period by fixed installments. Both parties in the transaction must know the cost price and the mark-up profit. In the case the seller does not disclose the cost price and the profit then the transaction is no longer considered Bai Muajjal-Murabaha, rather it's called *Musawama* (Obaidullah, 2008).

Bai muajjal-Murabaha is perhaps the most popular product used in IMFIs. In a profit-sharing product, the client is subjected to maintain written records and share with IMFI regularly. There is also a possibility of abuse where the client can falsely under report the profits. With Bai Muajjal-Murabaha free from these makes it easy for micro entrepreneurs to comprehend and for IMFIs to implement it (Obaidullah, 2008).

- **Bai-Salam**

Unlike in Bai-Muajjal-Murabaha where the *payment* is differed, in Bai-Salam the delivery of *commodity* is differed, and the price of the item bought is paid in advance. The quantity and quality of the commodity is specified and deliverable on a specific date at an agreed upon price (Nisar, 2002).

This type of product mainly suits small farmers and traders when they are in need of short-term funds, they sell their agricultural output or merchandize to the IMFI on a differed delivery basis and receive full price on spot that serves as a financing for them to produce the agricultural output or the merchandize

agreed upon. These IMFIs in turn is able to sell the agricultural output or the merchandize in the market in the future at a price higher than the spot price paid to the farmers and traders (Obaidullah, 2008).

- **Bai-Istisna**

Bai-Istisna is a contract of manufacture or construction for example a house or commercial building. It is executed between a buyer and a seller, where the seller under an istisna agreement undertakes to develop a commodity with clear set specifications at an agreed upon price to be delivered at an agreed period of time. The unique feature of this contract is that nothing is exchanged at the time of agreement. The buyer can pay the price progressively in accordance with the progress of the order placed or in full at the end of the time period (Obaidullah, 2008).

Istisna differs from Ijaarah such that the manufacturer must purchase the raw material required on his own otherwise the contract would amount to hiring a labor at labor wage as what occurs in ijaarah. Istisna differs from Bai- Salam such that the buyer does not have to pay in advance the full amount and the delivery date may not be necessarily fixed at the time of the contract and can be flexible as per mutually agreed between the buyer and seller (Nisar, 2002).

The IMFIs offer this product such that the seller and the manufacturer are different entities where IMFI is the seller and the manufacturer is the third party. The IMFI signs the istisna agreement with a buyer and signs a parallel istisna agreement with the manufacturer assigning it the job of construction (Obaidullah, 2008).

- **Bai-Istijrar**

Istijrar means the buyer purchases something from time to time with no offer or acceptance or bargain each time. With one master agreement with all terms and conditions finalized, the price is determined after all transactions of purchase are complete. Certain condition to executing such a contract is that the seller discloses the price of the goods each time and the sale becomes valid only when the buyer possesses the commodity. In the case of no disclosure of price, the buyer should be aware it will be in accordance to the market price in a way that it does not vary (Usmani, 2002). This is an ideal product for microfinance where micro entrepreneurs often tend to buy their raw materials from vendors in small quantities from time to time (Obaidullah, 2008).

2.2.2.2 Micro-Equity

The two traditional modes of transaction commonly discussed in this category are Mudarabah and Musharakah. These equity-based products are one area where microfinance has not explored its complete potential (Hunt-Ahmed, 2013). These products are unique and, in some ways, more satisfactory over conventional microfinance on grounds of ethics and efficiency.

- **Mudarabah**

The IMFI offering this product provides the capital to the entrepreneur acting as the 'Rabb-al-mal' and the entrepreneur acting as a mudarib provides professional, managerial and technical expertise for operating the business enterprise. Profit is shared between the two parties based on the pre-agreed ratio and losses if any are borne entirely by the capital provider, i.e., the IMFI. In some cases, the IMFI may restrict the entrepreneur to a particular business and in other cases the entrepreneur is free to invest the capital as per he sees fit (Nisar, 2002). After the agreement, as the business progresses, the client makes periodical profit-sharing payments to the IMFI along with buying one share of the IMFI's investment in their microbusiness. This reduces the future profit-sharing payments made by the client to IMFI until eventually the business and the profit is entirely owned by the client himself (Nadeem, 2012).

- **Musharakah**

In Musharakah based microfinance both parties, the IMFI and the entrepreneur, contribute their financial resources to undertake a particular business and manage the same according to the terms of agreement and share profit between them as per the pre-agreed ratio. Unlike in Mudaraba, loss is shared by both in proportion to their respective capital contribution (Goud, 2013).

Just as in Mudarabah, in this case as well, the client makes periodical profit-sharing payments to IMFI along with buying one share of the IMFI's investment thereby reducing the future profit-sharing payments made by the client. IMFI receives profit periodically based on its reduced equity share which remains invested during the time. Gradually IMFI's share continues to reduce whilst the client's share increases when eventually the complete ownership of the venture belongs to the client. This is called diminishing Musharakah (Musharakah Mutanaqisah) and as a microfinance product, it has great potential for the IMFIs (Obaidullah, 2008).

2.2.2.3 Micro-Savings

The poor want a place to keep their hard-earned money which is secure and convenient to deposit and withdraw from. Micro-savings is a highly sought out service however it has not received as much due importance as micro credit in the Islamic microfinance industry. Since, saving products must be free from all elements of Riba, the IMFIs offer micro saving under various contractual forms.

- **Wadiah**

Wadia-based deposit accounts are of two types; 'WadiahYadAmanah' and 'WadiahYadDhamanah'.

In WadiahYadAmanah the depositor can deposit and withdraw unconditionally. IMFI, considered as a trustee, has no right to utilize the deposited funds as investments except with the depositor's consent. In case of any loss or damage to the deposits, IMFI is not liable except in case of negligence. Since IMFI is not entitled any profit gain from the contract, it becomes unprofitable as a bind over utilization of deposits hampers sustainability (Visser, 2009).

WadiahYadDhamanah, in this case the IMFI utilizes the deposits, whilst guarantying safe return of the principle amount to the depositor. This allows the IMFI to utilize the deposits in investments. The IMFI utilizes the deposit at its own risk and any profit or loss made on the deposit money invested is to be accrued entirely to the IMFI. The depositor has no share in profit or loss of the money invested.

This type of Wadia is similar to the nature of Qard where no benefit or income over the principle amount is to be given to the depositor as this would amount to interest (Hassan, Othman, Salleh, & Hussain, 2016). According to Obaidullah (2008), if the IMFIs regularly announce to the depositor a return in the form of a gift or offer any additional services as a means to attract more depositors, this would clearly tantamount to riba.

- **Mudarabah**

A Mudarabah-based saving account is where the depositor appoints the IMFI as a Mudarib, an entrepreneur, to invest the deposits. In this case profit is shared between the account holder and the IMFI as per the agreed ratio and the loss is borne entirely by the depositor thereby affecting the value of the money deposited. The depositor has the right to withdraw anytime and profits are calculated based on the minimum balance maintained monthly which will be taken as the amount invested during that time period. Unlike in the wadiah based account where no minimum amount is to be maintained, for a depositor to qualify, a minimum balance is required to be maintained at all times. Due to the significant risk involved in carrying out Mudarabah-based saving account IMFIs rarely shelf this product to their clients (Obaidullah, 2008).

2.2.2.4 Micro-Leasing

Micro leasing known as Ijaarah is leasing and hiring of a physical asset. It is one of the most popular products offered by IMFIs where the institute acts as the lessor and under the agreement allows the client, the lessee, to utilize the asset owned by the institute. The risk associated with the ownership of the asset remains with the IMFI and after the agreed period of time, the asset is returned back to the institute.

In case of AITAB (IjaarahMuntahiaBittamleek), the client pays rental which at the end of the time period covers the cost of the asset as well as the rental for the utilization of the asset after which the IMFI simply hands over the asset to the client as a donation or sells it at a nominal price (Visser, 2009).

2.2.2.5 Micro-Services

Takaful meaning 'guarantying one another' is a risk management tool or a mutual insurance scheme. It is a nonprofit mode where each participant contributes a certain amount to the fund that is used to support any member contributing to the fund in times of need, such as illness, accident or death. The fund is collected and invested in Shariah compliant avenues to avoid interest (riba) (Karim, Tarazi, & Reille, 2008).

3.0 Literature Review

Jaffari et al. (2011) aimed to study the key challenges and prospects for the microfinance sector in Pakistan by collecting data through questionnaire distributed to 80 executives in four different MFIs and the received 54 respondents was analyzed using SPSS software and MS excel and for interpretation purpose Descriptive Statistics was used. The questionnaire divided into External challenges, Internal Challenges and Prospects after analysis depicted in the findings that MFI's staff lacks adequate training, MFI policy makers lack focus on providing clients who are mainly poor with adequate management skills to run their business, MFIs are largely perceived to be non-Islamic by clients, lack of awareness of the concept of Islamic microfinance, cost of microfinance is relatively higher in comparison to other financial products, limited physical presence of MFI, MFIs unable to adequately mitigate risk, conventional banks incompatible with the needs of microfinance products and lackof availability of quality human resource.

Rahman & Dean (2013) in their conceptual paper critically examine and highlight low market penetration, sustainability of MFIs due to lack of fund mobilization, lack of product diversification, highadmirative costs,

moral hazards due to inadequate monitoring and due to poor infrastructure, roads, markets, power and communication and also the low effectiveness of Islamic MFIs in alleviating poverty to be some of the challenges faced by Islamic microfinance institutions globally.

Kassim, Kassim, & Othman (2019) sought to study the three important Islamic microfinance institutions in Malaysia; Amanah Ikhtiar Malaysia (AIM), Yayasan Usaha Maju (YUM), and Tabung Ekonomi Kumpulan Usahawan Niaga (TEKUN) and examine and highlight issues and challenges faced by them. The findings raised some crucial factors hindering the development of IMFIs in Malaysia. Ethical Issues caused by a mission drift between achieving social goals by way of distributing zakat and sadaqah and economic goal through distribution of financial loans is one of the many issues. Commercialization is another ethical issue pointed out where high financing amount is imposed to maintain sustainability of the institutions. Also, in their findings from among the Governance issues raised were the legal restriction from Deposit-Taking Activities, Microfinance Institution as subsidized institutions leading to large number of non-performing loans, inflexibility in loan schemes irrespective of the types of business run by the borrowers, Segregation of Islamic MFIs from Mainstream Banking leading to over dependency and lack of innovation for sustainability and the need for Centralized Supervision to create greater awareness and standardize regulation.

Abohulaika (2017) conducted an empirical study based on primary data collected through survey and secondary data from various records of Social Fund for development, Yemen microfinance network, books and websites to identify the problems of Islamic microfinance institutions in Yemen. His findings underlined the weak legislation and law concerning organizing Islamic Microfinance work in Yemen, a need of a strong judicial institutions in solving problem related to Islamic microfinance, clients unable to produce all the required warranties to get loan, clients unable to conduct project feasibility, lack of lending culture in Yemen society, absence of private markets for microentrepreneur's products, high rate of non-performing loans or delay in repayment and instability of exchange rate in Yemen to be some of the prominent challenges being faced by IMFIs in Yemen.

Rana, Ismail, & Ismail (2016) carry out a research with the objective to identify challenges and opportunities in Islamic Microfinance industry by reviewing the present status of Islamic microfinance in Palestine. The secondary data gathered extrapolate the need of a separate Shariah complaint board apart from the existing Shariah governance, which can play an important role by providing consultative services to the IMFIs in innovating and promoting their products. The IMFIs in Yemen incur high operational costs which become a greater challenge when not subsidized or supported by the government. Low outreach, shortage of trained officials for IMFIs, poor infrastructure in the country and the dislike of the general people in Palestine of keeping jewelries and property as mortgage are some of the other challenge faced by them in Yemen. Amongst all the challenges, the political conflict in Yemen poses a major threat to the economic development of the country and a challenge to IMFIs functioning in the conflicting regions.

'Islamic Microfinance Development (2009) is a Policy Dialogue Paper prepared by Islamic Research and Training Institute (IRTI) which examines Islamic microfinance at three levels. At a micro level the major challenges arise from the diverse organizational structures, issues related to Shariah compliancy through Shariah Boards, Fiqhi Issues and divergent Perceptions, lack of product diversification and poor linkages with banks and capital markets. At Meso level, the challenges emanate from lack of Payment Systems such as electronic funds transfer and real time gross settlement system, lack of services and tools that provide for better transparency and create an Information structure such as the reliable information software and high-quality auditors and rating agencies, lack of education and training for both clients and organization personnel and lack of effective networking. At Macro level issues arise due to lack of Prudential Regulation and Supervision at a time when a depositor's money is at risk and from running IMFIs in a dual system.

Karim, Tarazi, & Reille (2008) is a study presented on principles of Islamic finance, Development of the Islamic Finance Industry, Government Regulations and promotion of Islamic microfinance. CGAP conducted a global survey on Islamic microfinance in 2007 on over 125 institutions from 19 Muslim countries and found that IMFIs reach 300,000 clients through 126 institutions operating in 14 countries and an estimated 80,000 clients through a network of Indonesian cooperatives. Yet in all Muslims countries IMFI still accounts for a very tiny portion of the country's total microfinance outreach. The research then highlighted several possible challenges to scale up Islamic microfinance. In Building Sustainable Business Models, operational efficiency and risk management to be given particular importance. The question of authenticity, building capacity by creating comprehensive guidelines on Islamic microfinance accounting principles, pricing methodologies, financial audits, rating services, efforts to train Islamic MFI managers and staff, product diversity and leveraging on Zakah and Islamic Funds are some of the other challenges to overcome for better sustainable growth of Islamic microfinance globally.

Hersi (2018) is a report commissioned by the Horn Economic and Social Policy Institute (HEPSI) that reviews challenges and prospects of Islamic Microfinance in IGAD sub region using desk review and mainly secondary sources of information in their study. The report stressed on the constraints and challenges facing the industry in the IGAD region highlighting them to be lack of enabling Shariah and secular legal and

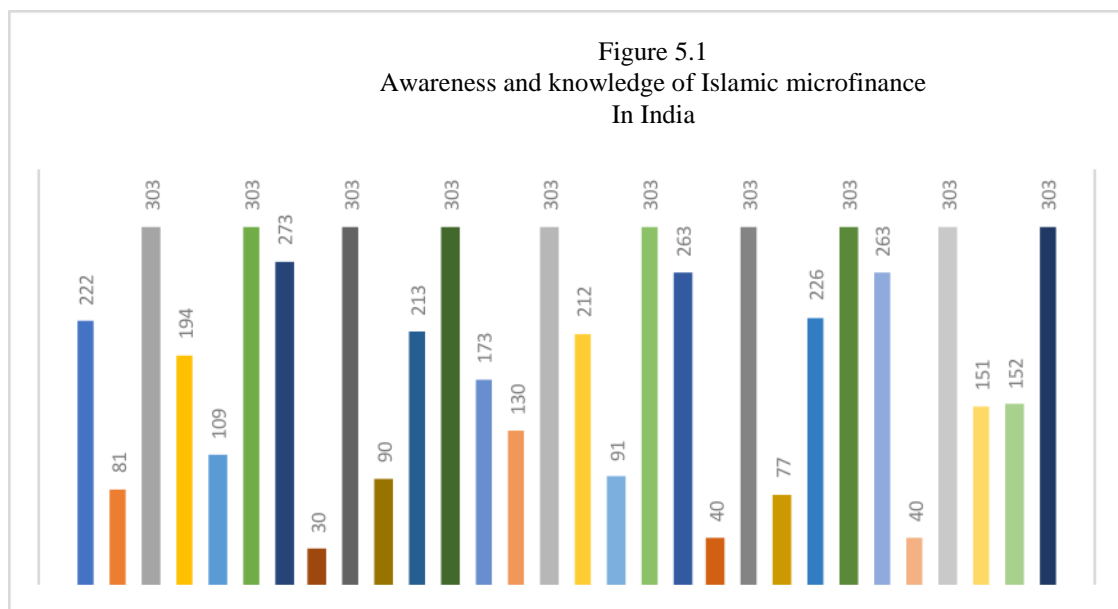
regulatory framework, lack of diverse and fitting business models and products for the IMFIs, lack of standard procedures, taxation rule and facilities, prevailing misconceptions and political developments about IF and IMFI, Emerging risk Managements and moral hazards, levels of public awareness and Lack of capable institutions (poor human and physical capacities),

4.0 Research Methodology

The objective of this paper is to gauge the awareness of Islamic Microfinance in India. The quantitative research method adopted in this study. Primary data will be collected from questionnaires. In the case of public, questionnaires will be distributed through online to ascertain their views. Secondary data will be gathered from related articles, books and internet resources. Sampling method used is random sampling. The questionnaire will be analysed mainly by using descriptive statistics. This is the common method of describing the close ended questions (Redzuan et al., 2009; Amin & Rahman, 2011). A total of 303 respondents were received from the targeted 500 approximately. Out of 300 respondents 202 (72.6%) are male respondents and 83 (27.4%) are female respondents. The responses gathered from the online survey have been analysed using SPSS22 software. Tabachnick & Fidell, (2012), state that at least 300 respondents are enough to run the factor analysis.

5.0 Findings

5.1 Awareness and Knowledge of Islamic Microfinance in India



In order to examine the awareness and knowledge of respondents on Islamic microfinance, 10 questions were created (refer to Table 1). The section starts with a basic question about whether the respondents have heard about Islamic microfinance followed by if they knew the difference between Islamic and Conventional Microfinance. In both case, majority of them responded positively with 222 respondents (73.3%) and 194 respondents (64%) respectively. Minority of them responded saying they had neither heard about Islamic microfinance nor knew how it differed from conventional microfinance with 81 (26.7%) and 109 (36%) respondents respectively. The same holds true when 90.1% of the total respondents opined that there is lack of proper understanding of Islamic Microfinance amongst the public. A similar question was asked regarding the knowledge of the staff working in microfinance institutions and majority of the respondents i.e., 74.6% of the total respondents are of the opinion that the staff does not have adequate knowledge of Islamic finance. To further substantiate the lack of awareness amongst the respondents, they were asked if they knew about Islamic microfinance products to which majority of them, i.e., 70.3% of them responded negatively leaving only 29.7% of the respondents with a positive feedback.

The respondents were then asked if they considered Islamic microfinance to be ethical, suitable for all religions, free from interest and bearing only halal investments. To this, majority of them responded positively. This shows that respondents, since majority of them are Muslims, have an understanding of Islam and do believe that Islamic microfinance adheres to Islamic values and morals. This becomes clear from the

next question asked about extra money on loan to be considered interest or not. To this, 86.8% of the respondents accept that it is considered interest/riba.

Although when asked about the service charge a customer is to pay on a loan taken, 49.8% consider it to be interest where as 50.2% consider it to be simply service charge. This illustrates that there is lack of in-depth understanding of the way Islamic microfinance products are offered and their operational framework. Hence this section reiterates the previous studies that highlight the lack of awareness of Islamic microfinance to be one of the prominent issues in Islamic microfinance in India. Figure 5.1 shows the percentage of the awareness of respondents.

Table 1: Awareness and Knowledge of Islamic Microfinance

No.	Description	Frequency	Percentage	
1	Have you heard about Islamic Microfinance?	Yes	222	73.3
		No	81	26.7
		Total	303	100.0
2	Do you know the differences between conventional and Islamic Microfinance?	Yes	194	64.0
		No	109	36.0
		Total	303	100.0
3	Is there a lack of proper understanding of Islamic Microfinance amongst the public?	Yes	273	90.1
		No	30	9.9
		Total	303	100.0
4	Are you aware of Islamic Microfinance products?	Yes	90	29.7
		No	213	70.3
		Total	303	100.0
5	Do you know the Islamic Microfinance as ethical finance?	Yes	173	57.1
		No	130	42.9
		Total	303	100.0
6	Do you know that Islamic Microfinance is suitable for anyone regardless of religion?	Yes	212	70.0
		No	91	30.0
		Total	303	100.0
7	Do you know that Islamic Microfinance is free from interest and investing in prohibited business activities	Yes	263	86.8
		No	40	13.2
		Total	303	100.0
8	Do you think people and staff working in the company and other microfinance institutions have adequate knowledge of Islamic Finance?	Yes	77	25.4
		No	226	74.6
		Total	303	100.0
9	When taking a loan, any extra money given back more than the actual loan amount, is considered Riba/interest.	Yes	263	86.8
		No	40	13.2
		Total	303	100.0
10	Paying service charge by the customer on the loan taken is considered Riba/Interest.	Yes	151	49.8
		No	152	50.2
		Total	303	100.0

6.0 Conclusion

The results on awareness of Islamic microfinance in India shows that majority of the Indians have heard of Islamic microfinance and are aware of the differences between Islamic and conventional microfinance. However, majority also felt that there is lack of proper understanding of Islamic microfinance amongst the public and also within the staff working in microfinance institutions. This holds true when the respondents were enquired if they knew of the Islamic microfinance products offered by IMFIs to which majority responded with a 'No'. The results also show that majority of the respondents believe that Islamic microfinance is ethical, suitable for all religions and free from interest and *haram* (prohibited) investments. The majority 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.

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