ISLAMIC FINANCIAL INSTITUTION OF INDIA: PROGRESS, PROBLEMS AND PROSPECTS

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FOREWORD

The Islamic financial services industry has come of age. According to one estimate there are presently over two hundred Islamic banks and financial institutions all over the globe with total transactions valued at over 120 billion US dollars. A cursory look at these financial institutions and the nature of their operations reveals an interesting aspect of the growth of this sector. There does not seem to be much of a correlation between the number of Islamic financial institutions established in a given region with the size of the market that these institutions can potentially serve. For example, countries like Indonesia and India which together account for over one-third of world Muslim population do not score very high in terms of growth of the Islamic financial services industry. This may be due to a variety of reasons, which are often not rooted in economics. India with a population of over 150 million Muslims particularly lags behind with a near-total absence of organized Islamic banks and financial institutions. As such, the situation merits serious attention of researchers and scholars. The present study by Dr. Mohammad Ghous Ikhtiyaruddin Bagsiraj is an ambitious attempt in this direction.

Notwithstanding the scant attention that Islamic banking has received from regulators and policy makers in India, small Muslim communities have taken initiative to establish a fairly large number of tiny and small institutions, often in the cooperative, informal and unorganized sector to serve local needs. The challenges confronting these institutions are many, further compounded by the absence of an appropriate legal and regulatory framework. Dr. Bagsiraj's study undertakes a complete survey of these institutions that dot the map of India, concentrated in Muslim-populated regions. It provides very useful data and insight into the functioning of such community-initiated institutions. It evaluates their socio-economic performance and identifies their problems and prospects. The Center is pleased to publish this study that would help focus the attention of global Islamic financial community on the great potential that India offers in terms of growth of Islamic banking and finance.

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Islamic Economics Research Center.

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CONTENTS

Abbreviations and Acronyms

A.P.	:	Andhra Pradesh
ACCS	:	Al-Ansar Co-operative Credit Society Ltd.
AFHL	:	Al-Barr / Al-Baraka Finance House Ltd.
AIFICL	:	Al-Ameen Islamic Financial and Investment Corporation Ltd.
AMMB	:	Al-Najib Milli Mutual Benefits Ltd.
BAB	:	Barkat Association Belgaum
3CCS	:	Bait-ul-Maal Co-operative Credit Society Ltd.
3LFSL	:	Barkat Leasing and Financial Services Ltd.
BNCCS	:	Bait-un-Nas'r Co-operative Credit Society Ltd
BTC	:	Bait-ul-Maal Tamilnadu
CCR	.	Cash Reserve Ratio
CRIE	:	Center for Research in Islamic Economics
CRWAR	:	Capital To Risk Weighted Asset Ratio
DAG	:	Dallah Al-Baraka Group
DAIC	:	Dallah Al-Baraka Investment Company Ltd.
DAIDC	:	Dallah Al-Baraka Investment and Development Company Ltd.
ELHPC	:	Equipment Leasing and Hire Purchase companies
FAPs	.	Financial Associations of Persons
FCD	:	Fully Convertible Debentures
FIFO	:	Federation of Interest Free Organisation
IAIBs	:	International Association of Islamic Banks
IBsFIs	:	Islamic Banks and Financial Institutions
ICCSs	:	Islamic Co-operative Credit Societies
ICICI	:	Industrial Credit and Investment Corporation of India
ID	:	Investment Deposits
IDB	:	Islamic Development Bank
IDBI	:	Industrial Development Bank of India.
IFCI	:	Industrial Finance Corporation of India.
IFCs	:	Islamic Financial Companies
IFE	:	Islamic Financial Engineering
IFIs	:	Islamic Financial Institutions
IFMCIs	:	Interest-Free Micro Credit Institutions
IFSP	:	Interest-Free Society Pune
IFSs	:	Islamic Financial Societies
IIFCs	:	Islamic Investment and Financial Companies
IIFIs	:	Islamic International Financial Institutions
INGOs	:	Islamic Non-Govt. Organisations
IRTI	:	Islamic Research Training Institute.
IWSB	:	Islamic Welfare Society Bhatkal
KAU	:	King Abdulaziz University
M.P	:	Madhya Pradesh
MBG	:	Mutual Benefit Group
MCIs	:	Micro Credit Institutions
MF	:	Muslim Fund
MFD	:	Muslim Fund Deoband
MFN	:	Muslim Fund Najibabad
MNCs	:	Multi-National Corporations
MWS	:	Millat Welfare Society
NBFCs	:	Non Banking Financial Companies

NBFIs	:	Non-Banking Financial Institutions
NCSCCSL	:	Nehru College Staff Co-operative Credit Society Ltd.
NNP	:	Net National Product
NOF	:	Net Own Funds
NPAs	:	Non-Performing Assets
PCCSL	:	Patni Co-operative Credit Society Ltd
PLS	:	Profit and Loss Sharing
R & D.	:	Research and Development
RA	:	Regulatory Authority
RBI	:	Reserve Bank of India
RID	:	Recurring Investment Deposit
SIFC	:	Shantapuram Islamic Finance Corporation
SLR	:	Statutory Liquidity Ratio
SSFL	:	Seyad Shariat Finance ltd.
TBH	:	Toor Bait-ul-Maal Hyderabad
U.P.	:	Uttar Pradesh
UTI	:	Unit Trust of India
WB	:	West Bengal

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INTRODUCTION

1. OBJECTIVES AND APPROACH OF THE STUDY

Islamic Financial Institutions (IFIs) are making their presence felt in most of the Muslim as well as some of the other leading countries of the world[1]. Multinational Banks like Citibank and ANZ Bank have started Islamic Investment Windows. India, one of the oldest country and civilization has second largest Muslim population in the world. What the world does not know is that there are about 300 IFIs in India. Even most of the Indians including Muslims do not know about them. Very little is known about the functioning, socio-economic performance and potential of IFIs in India even to the knowledgeable Islamic Economists. That in essence is the reason dtour of this study.

Informing Indians and the world about the existence of IFIs is not the end in itself. Unfortunately after independence Indian Muslims in general have fallen from grace, their collective socio-economic productivity has declined, poverty and suffering have increased. Perhaps by giving a boost to the organisation and operation of IFIs they can turn around their own socio-economic status as well as contribute a new institutional set-up to the growing needs of their progressive country and economy. A well-organised, well-managed chain of purposeful IFIs can be utilised to finance their entrepreneurship and economic growth on the one hand and enhance *Falah* or social welfare on the other hand. We have every right to utilise the forces of economic liberalisation and globalisation for our own and the country's progress and welfare. Economic environment is just right for the promotion of large-scale profit and loss sharing (PLS), Equity or Venture Capital based IFIs. In order to avoid debt trap and promote equity finance to give a boost to economic take off, our Central Govt. is making wholesome changes in financial rules, in favour of Indian as well as foreign investment institutions. We the Indian Muslims can no longer afford to miss the speeding bus of privatisation and liberalisation of financial institutions. Most of the nationalized Commercial Banks have been permitted to float their own Mutual Funds, to promote equity finance in public sector. NBFCs are increasingly providing Venture Capital financing. If as a result of this study IFIs of India receive the necessary fillip and statutory recognition it would serve its full purpose.

IFIs of India can be geared to attain self sustained socio-economic progress and *Falah* of Indian Muslims in particular and Indians in general. However the true potential of IFIs of India can be established only after a full assessment of their past performance, present problems and future prospects. The objectives of this empirical study are:

1. To study the nature composition and growth of IFIs in India.
2. To assess their socio-economic performance.
3. To identify their problems and prospects.

2. SCOPE AND PLAN OF THE STUDY

There is ample literature on the theory of IFIs. Foremost is the book written by Dr. M.N.Siddiqui in *Urdu* called '*Ghair Soodi Bankaari,*' as early as in 1969. It was later published in Pakistan as 'Banking without Interest'. The book is universally acknowledged as a promoter of interest and literature on Islamic

1. According to Directory of Islamic Banks, International Association of Islamic Banks, Jeddah, 1997, there are 176 IBs FIs in 37 countries of the world.

Banking and IFIs. 'Issues in Islamic Banking' edited by the same author in 1983 consists of selected papers on different aspects of Islamic Banks. 'Development and Problems of Islamic Banks' by Dr. Monzer Kahf and Tariqullah Khan in 1992, 'Islamic Banking, State of Art' by Dr. Ziauddin Ahmad in 1994, 'Challenges facing Islamic Banking' by Munawar Iqbal, Ausaf Ahmad, and Tariqullah Khan in 1998 and many others are the exponents of theory and practice of Islamic Banking. 'Encyclopedia of Islamic Banking and Insurance' edited by Muazzam Ali and others in 1995 covers most of the aspects of Islamic Banking in theory and practice the world over. Except introducing Al-Ameen Islamic Finance and Investment Corporation Ltd. of India in its survey section, it has nothing to say about IFIs in India.

There is negligible literature on the state of IFIs in India. Islamic Fiqah Academy sponsored proceedings of the seminar on Islamic Banking, held at Bangalore in June 1990, has been published in the *Fiqah Islami* issue of 3rd seminar. It deals with the theoretical and shariah aspects of Islamic Banking in India. 'Islamic Banking in India: the Concept Organisation and Practices' a note in urdu prepared by Qazi Mujahidul Islam's *Fiqah* Academy published in the urdu quarterly '*Bahas-v-Nazar*' in Feb 1992 issue is a comment on the Banking instruments and practices and the difficulties in the way of Islamic Banking in India. 'Islamic Banking movement in the Muslim world and its prospects in India' a seminar paper by Javed Ahmad Khan published in 'The Principles of Islamic Economics and the state of Indian Economy' in 1995 gives a bird's eye view of Islamic Banks in the world. It has devoted just two pages for describing features of some of the IFIs operating in India. 'Practical Problems faced by (Profit based) IFIs in India' by M.H. Khatkhate published in the same book throws light on some of the organisational, operational, and *Shariah* problems of IFIs. The same author's seminar paper presented at second conference on Islamic Banking and Finance at Toronto, Canada, in June 1997 on 'Islamic Investment activities in India' is the only article that provides some information on the functioning of IFIs in India. 'The Directory of Islamic Banks' by Dr. Rehmatullah in 1992 has described brief profiles of a few IFIs in India and the addresses of 159 Indian IFIs.

India being a secular democracy, its Banking Act. and traditional banking practices, do not provide for establishment of interest-free Islamic Banks. However various types of IFIs, about 300, are flourishing in India[2]. Based on their functional model and registration this study has classified all the Indian IFIs into four distinct categories.

I. Financial Associations of Persons (FAPs). These are unregistered, interest-free, self help groups belonging to unorganised sector of Islamic Finance in India.
II. Islamic Financial Societies (IFSs) registered under Societies Act. or Charitable Trust Act.
III. Islamic Co-operative Credit Societies (ICCSs) registered under various state Co-operative Societies Acts.
IV. Islamic Investment and Financial Companies (IIFCs) registered under companies Act.

The evolution, nature, classification and geographical spread of IFIs has been presented in chapter I.

Five representative IFIs of each category have been studied in detail. Their economic, social and managerial performances have been assessed along with problems and prospects of each institution in chapter II, III, IV and V respectively. Chapter VI presents the institution-wise, category-wise and industry-wise consolidated and comparative analysis of IFIs of India.

In a democracy prospects and growth of an institutional setup are determined by the understanding and perception of people about their functioning. The future growth prospects of IFIs in India also very much hinge on their perception in the eyes of people especially Muslims. Chapter VII explores the growth prospects of IFIs in India in the context of Muslim perception.

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2. List of IFIs operating in India is provided in ehapter 1 Annexes.

Conclusions and policy implications are presented in chapter VIII. A Selected Bibliography is given in the end.

3. METHOD OF STUDY

This is an empirical study. The available literature has been scanned and whatever secondary data is available, mostly from the Annual Reports, Special Commemorative issues, news and information bulletins etc. has been collected. As already noted very little secondary data is available from these sources. Primary data was collected with the help of surveys. In all 3 all India surveys have been conducted.

1. General Survey of IFIs in India.
2. Stratified Sample Survey of selected IFIs.
3. IFIs Awareness Survey.

First is the General Survey of 165 IFIs as listed in 'Directory of Islamic Banks in India[3]. It is aimed at finding out:

i. Main features of IFIs.
ii. Classification of IFIs.
iii. New IFIs if any.
iv. Geographical spread of IFIs.

The General Survey Questionnaire was sent to 165 IFIs by post along with an appeal (Annex 0.1) to provide copies of:

a. Latest Annual Report / Statement of Accounts.
b. Introductory Brochure / Handout of the IFIs.
c. Copy of Special Report / Write up of the IFI if any.
d. Byelaws of the IFI if any.
e. Addresses of other IFIs in the neighbourhood if any.

Secondly a Stratified Sample Survey of IFIs of each category, in all 20 IFIs from all over India has been conducted. While selecting sample IFIs of each category care has been taken to represent all the type of IFIs operating in different regions of India. A 20 page Questionnaire calling for general, economic, social and managerial information has been utilised (Annex 0.2). The data has been collected after visiting all the 20 sample institutions personally. The economic data of each institution has been statistically analysed, and arranged in appropriate tables, Deployment Ratios, Cost Ratios and Return Ratio etc. have been calculated wherever possible. Five-year arithmetic mean values of important variables of all the IFIs surveyed have been also calculated institution-wise, category-wise and industry-wise, along with their ratios, to present a consolidated and comparative performance analysis of IFIs of India. The consolidated mean values and ratios have also been illustrated graphically. All the Tables and Charts presented in this study are based on the data collected through respective Surveys.

The Stratified Survey Sample Population is presented in Table No. 0.1 along with the number of visits and period consumed by IFIs to provide data, which provides an idea about the data collection effort.

The third Sample Survey was undertaken in 25 Indian cities to find out Muslim perception of IFIs and Islamic financial principles, with the help of an Interview Schedule (Annex 0.3). All the cities except 8 of

3. Dr. Rehmatullah's Directory of Islamic Banks, 1992, has listed 159 IFIs only, rest were found during research.

Islamic Financial Institution's Stratified Sample Survey
Population and Effort 1998-99

Table No. 0.1

Sl No.	Institutions	No. of Visits	Period Consumed
	I. Financial Associations of Persons		
1.1	Barkat Association, Belgaum.	2	2 months
1.2	Interest-free Society, Pune.	1	1 day
1.3	Shantapuram Islamic Finance Corporation, Kerala.	1	1 day
1.4	Mutual Benefit Group, Bhatkal.	1	1 day
1.5	Millat Welfare Society, Faizabad.	1	1 day
	II. Islamic Financial Societies		
2.1	Muslim Fund, Deoband.	1	1 day
2.2	Muslim Fund, Najibabad.	2	2 days
2.3	Toor Bait-ul-Maal, Hyderabad.	2	2 days
2.4	Bait-ul-Maal Tamilnadu, Chennai.	3	2 years
2.5	Islamic Welfare Society, Bhatkal.	5	2 years
	III. Islamic Co-operative Credit Societies		
3.1	Patni Co-operative Credit Society, Surat.	1	1 day
3.2	Bait-un-Nas'r Co-operative Credit Society, Mumbai	5	2 years
3.3	Bait-ul-Maal Co-operative Credit Society, Mumbai	5	2 years
3.4	Nehru College Staff Co-op. Credit Society, Hubli.	1	1 day
3.5	Al-Ansar Co-operative Credit Society, Hyderabad.	6	3 years
	IV. Islamic Investment and Financial Companies		
4.1	Barkat Leasing and Financial Services Ltd. Mumbai.	5	2 years
4.2	Al-Barr /Al-Baraka Finance House Ltd., Mumbai.	3	2 years
4.3	Al-Ameen Islamic Finance & Investment Co. Mumbai	9	3 years
4.4	Sayed Shariat Finance Ltd., Tirunelveli.	2	1 year
4.5	Al-Najib Milli Mutual Benefits Ltd., Najibabad.	2	2 days
TOTAL	**20**	**58**	**3 years**

them did not have an IFI. 30 persons including women belonging to 15 professional strata, in each city were interviewed. No interviews were conducted in the villages because the literacy and the knowledge level in Indian villages is much lower. Moreover villages are not exposed to IFIs most of which operate only in bigger cities. Table No. 0.2 gives the Sample Universe of third Survey.

Based on the data analyses of the three surveys, conclusions and policy implications have been drawn.

4. FIELD PROBLEMS AND ADJUSTMENTS:

The research proposal on "Islamic Financial Institutions of India: Progress Problems and Prospects" was prepared and sent to Director, Center for Research in Islamic Economics (CRIE), King Abdulaziz University (KAU), Jeddah, for sponsorship on 10th November 1996.

On the basis of research proposal 4 Surveys were planned and the respective Questionnaires prepared.

1. General Survey –I. To survey as many of the IFIs of India as possible and find out their features.
2. Stratified Sample Survey –I. To make in-depth study of the selected IFIs and to assess their economic social and managerial performance, and find out their problems and prospects.
3. Stratified Sample Survey –II. To Survey of the interest-free loan and PLS depositors.
4. Stratified Sample Survey –III. To Survey of the interest-free loan and PLS beneficiaries.

The General Survey Questionnaire was sent to 165 IFIs throughout India by Post. The institutions and their addresses were selected mainly from the Directory of Islamic Banks in India, by Dr. Rahmatullah[4]. The response to postal General Survey was rather poor, only 24 Managements of IFIs have responded satisfactorily. Another 21 have sent incomplete information, out of which one was actually a conventional Leasing Society indulging in interest, and three were only Charitable Societies without performing any Islamic financial function, hence discluded. Thus in all only 45 IFIs of India i.e. 30% have responded to General Survey. The called for profiles of only 24 IFIs are available, out of which, 20 have been covered in detail by the Stratified Sample Survey. Hence their profiles have not been reported separately. However the General Survey has led to a brief history of evolution and growth of Indian IFIs, their nature and classification. It has also enabled compilation of an exhaustive list of IFIs of India along with their geographical spread. 292 IFIs have now been identified, (Chapter I Annexes).

Stratified Sample Survey-I is the chief survey that assesses the progress, problems and prospects of IFIs of India. A comprehensive 20-page Questionnaire was formulated to elicit general, economic, social and managerial information. In view of the poor response to the postal General Survey, it was decided to conduct this survey with the help of Research Assistants. However they could not establish necessary rapport and did not get access to the data. I had to personally visit all the selected IFIs several times to get necessary data from them.

Selection of Sample IFIs itself was not very easy. Out of 159 known IFIs, Islamic Financial Societies registered under Societies or Trust Act were the largest in number, followed by unregistered FAPs. But postal and telephonic efforts often failed to establish initial contacts with the selected units. Hence personal visits had to be paid to several cities in order to select the sample units. The selection of sample units of Islamic Co-operative Credit Societies (ICCSs) and Islamic Investment and Financial Companies (IIFCs) was much more difficult, because their number was less and they were often not ready to part with necessary data. Only 3 ICCSs were found to be still operational. Two more had to be selected for the study. It was after real search that they were found in Hubli and Hyderabad.

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4. See Rahmatullah (1992)

Islamic Financial Institutions Awareness Survey
Sample Universe 1998-99

Table No. 0.2

Sl. No.	City	State	Sample Size	Professional Status
1	Agra	UP	30	Alims / Imams
2	Aligarh	UP	30	Bankers
3	Deoband	UP	30	Doctors
4	Najibabad	UP	30	Engineers
5	Delhi	Delhi	30	Farmers
6	Gurgaon	Haryana	30	Govt. Employees
7	Chandigarh	Punjab	30	Graduate Students
8	Bhopal	MP	30	House Wives
9	Patna	Bihar	30	Large Businessmen
10	Ajmer	Rajasthan	30	Mechanics
11	Baroda	Gujarat	30	Pavement Sellers
12	Surat	Gujarat	30	Private Employees
13	Mumbai	Maharashtra	30	Rickshawallas
14	Pune	Maharashtra	30	Small Shop keepers
15	Sangli	Maharashtra	30	Teachers
16	Bangalore	Karnataka	30	
17	Belgaum	Karnataka	30	
18	Bhatkal	Karnataka	30	
19	Dharwar	Karnataka	30	
20	Mysore	Karnataka	30	
21	Kudachi	Karnataka	30	
22	Chennai	Tamilnadu	30	
23	Calicut	Kerala	30	
24	Kasarkod	Kerala	30	
25	Hyderabad	Andhra Pradesh	30	
TOTAL	**25**	**13**	**750**	**15**

The selection of IIFCs was most problematic. They were not very large in number, and all of them were facing the problems of structural adjustment after the imposition of new Prudential Norms and amendments in NBFCs Act. in 1997 and 1998. Economic recession and business losses had further intensified their crisis. They were in no mood to extend co-operation and collection of necessary data was a Herculean task involving heavy monetary and time Costs. At least 4 futile visits had to be paid to IFIs at far off places like Delhi, Mumbai and Calicut. Meanwhile some of the IFIs selected as samples like Al-Falah Investments of Delhi and Bait-ul-Islam Finance and Investment Company of Calicut, Kerala had closed down, because of the rejection of their registration by Reserve Bank of India. Whereas some of the other IFIs like Assalam Financial and Investment Company Pvt. Ltd. of Calicut did not provide economic performance data till the end inspite of assurances. Other sample IFIs had to be selected and pursued. All of these and Cost constraints have led to delay in the completion of this study.

Other 2 Surveys, the Stratified Sample Survey-II of the depositors of selected IFIs and Stratified Sample Survey-III of the borrowers and beneficiaries of selected IFIs had to be ultimately abandoned and replaced by another Survey for various reasons. 50 Depositors and 50 Borrowers of each of the 20 IFIs of India were initially selected for study, in all 1000 depositors and 1000 borrowers were to be surveyed. During the initial stages of both these survcys it was found that they were neither feasible nor worthwhile, because all the IFIs did not have the addresses of the depositors and borrowers / beneficiaries. Even if they had the addresses, they were not willing to part with them. With persistent efforts when some of the addresses were acquired, it was very difficult to trace the respondents. Many of them had changed their residences some of them had even changed the cities. After many visits and heavy expenditure when some of the respondents were found, many of them did not have records at their disposal to speak from. Hence they could give only approximate data and dates of their Deposits and borrowings, earnings and repayments etc.. Only subjective questions of the Questionnaire were yielding adequate response. Hence it was decided to replace the Surveys of depositors and borrowers with the Awareness Survey of IFIs and Islamic Financial Principles. The change has not affected the objectives of the study. Infact Awareness Survey has been more suitable for attaining the objective of the study.

CHAPTER 1

ISLAMIC FINANCIAL INSTITUTIONS OF INDIA

1.1 Evolution of IfIs in India

Neither Islam nor Islamic Financial Institutions are new to India. Islam was introduced in India during Prophet's (PBUH) time itself. Raja Bhoj, King of Dhar on the bank of chambal river in UP, Perumal the King of Kodungallur in Trichur dist., Kerala are reported to have seen the miracle of *Shaqq-ul-Qamar* and converted to Islam along with some of their people[5]. *Sahaba*, *Sufies*, and Arab traders who frequented west coast of India have also played significant role in spreading Islam, Islamic institutions and Islamic culture[6]. IFIs in some preliminary form such as Bait-ul-Maal have often been used in India by the Muslim rulers as well as Muslim religious and social workers for collection and distribution of *Zakah*, *Sadaqah* as well as *Qard-e-Hassan*[7]. However the institution of Bait-ul-Maal in Muslim India has been mostly used for charitable rather than commercial purposes.

IFIs as economic entities were first established in late 30s and early 40s of the 20th century in India. The Patni Co-operative Credit Society Ltd. was established in 1938 and the first Muslim Fund was started in 1941. However proliferation and growth of IFIs took place in India only after independence and their commercialization took place along with global development of Islamic Banks and Islamic Financial Institutions in 80s.

1.2 Global Growth of Islamic Banks and Financial Institutions

With the spread of commercial banking, Muslims the world over have also started several Islamic Banks, IFIs, and Islamic Insurance Institutions. The theory as well as practice of Islamic banks and Islamic Insurance agencies called '*Takaful*' is very well brought out through series of articles and profiles in the Encyclopedia of Islamic Banking and Insurance[8]. 194 Islamic Banks and Financial Institutions (IBsFIs) are listed in the Directory of Islamic Banks and Financial Institutions prepared by the International Association of Islamic Banks in 1997. However details of only 176 IIFIs are available as given in Table No. 1.1. The total assets of IBsFIs are around $147.69 Million, their Deposits being $112.59 Million and capital $7.33 Million. They have earned total net profit of $ 1.24 Million. Pakistan, Sudan and Iran are the only Muslim countries, which have adopted Islamic Banking on national level. The largest number of IBsFIs, 51 are to be found in South Asian countries followed by 35 in Africa, 31 in South East Asia. There are 9 IBsFIs operating in Europe and America. Except Al-Ameen Islamic Financial and Investment Corporation Ltd. of Bangalore none of the IFIs of India are listed in the Directory of IBsFIs. In Europe and America as well as most of the Muslim countries Commercial Banks can lend or invest their funds in PLS avenues such as equity investment and venture capital etc. In India Commercial Banks can only lend their funds on interest. Investment on PLS basis can be undertaken in India by only Non Banking Financial Institutions. Hence there are no Islamic Banks in India, only IFIs. The growth of IFIs in India is generally a post independence phenomena.

5. See 'Hajee Mehboob Qasim' article in Muslim Digest, Durban, South Africa Vol. 29, No. 1 & 2, Aug.-Sept. 1978.
6. See Kwaja Bahauddin Akrami's 'Arab-v-Dayar-e-Hind' 1982.
7. See Hakim Sayyed Abdul Hai's 'India in the Islamic Period' (urdu) 1973, pp 81 & 110.
8. Encyclopedia of Islamic banking and Insurance, 1995.

Region-wise Distribution and Economic Performance of Global Islamic Banks, 1997

Table No. 1.1

REGION	No. of Banks	%	CAPITAL		TOTAL ASSETS		DEPOSITS		RESERVES		NET PROFITS	
			Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
South Asia	51	29	884048	12	39272976	26	25664913	23	1077163	35	249792	20
Africa	35	20	202197	3	1573846	1	730025	1	82087	3	19750	2
S.E. Asia	31	18	149837	2	1332204	2	1887710	2	160136	5	45650	4
Middle East	26	15	3684136	50	83136100	56	69076443	61	382286	12	25185	20
G.C.C.	21	12	1787395	24	20449637	14	14088581	12	1353167	44	603642	49
Europe / USA	9	5	616795	9	908922	1	1139541	1	20613	1	66707	5
Asia	2	1	3452	0	5727	0	2563	0	24	0	282	0
Australia	1	0	5219	0	5590	0	N/A	0	50	0	224	0
TOTAL	176	100	7333079	100	146685002	100	112589776	100	3075526	100	1011232	100

Source: Directory of International Islamic Banks and Financial Institutions, 1997, pp 4.

Muslim Funds were established mostly in North India during the 1960s. Islamic Welfare Societies proliferated mostly in South India during 1970s, and Islamic Investment and Financial Companies were started first in South then in North India during 1980s.

1.3 Classification of IfIs in India

IFIs of India can be best classified on the basis of their functional model and registration authority. India's IFIs basically follow three distinct models, and are registered with three different authorities. There is also a fourth category of IFIs, those who do not have any independent operational model, nor are they registered under any authority. They can be classified as Financial Associations of Persons (FAPs). They are not the product of any specific time period. Muslim Funds (MF), Islamic Welfare Societies (IWSs) and Bait-ul-Maals which are registered under Society or Trust Act. are classified as Islamic Financial Societies (IFSs). They follow basically the Muslim Fund model. Modeled on Co-operative Credit Societies basis interest-free Co-operative Credit Societies registered with the Registrar of Co-operative Societies are classified as Islamic Co-operative Credit Societies (ICCSs). Profit and Loss Sharing (PLS) interest-free investment and financial companies registered under Companies Act. are classified as Islamic Investment and Financial Companies (IIFCs).

i. History, Nature and Growth of IFSs:

It was during the Indian independence movement, when Muslim masses were suffering the pangs of poverty, because they were at odds with the British rulers as well as non-Muslims, that Moulana Syed Hussain Ahmed Madni developed the model of Muslim Fund as an economic entity. The first Muslim Fund was established in 1941 at Tada Bavli in UP. It was mobilising the savings of poor farmers and workers on daily / weekly basis as *Amanath* Deposits and extending interest-free loans against the security of gold ornaments. Service Charges were collected from borrowers to meet the operational Costs. This basic model of interest-free Society has been adopted and implemented by Muslims all over the country with some or the other modifications. For instance the Toor Bait-ul-Maal of Hyderabad has combined interest-free credit function with *Zakah* and *Sadaqah* mobilisation and distribution through various charity-based funds. Islamic Welfare Societies promoted by Jamat-e-Islami Hind which are found more in South India, have been also combining credit function with *zakah* mobilisation and distribution. Provision of interest-free credit is the common basic function of all these Societies. Most of these interest-free credit-offering Societies have been registered under Societies or Trust Act.

All the registered Societies that are accepting *Amanath* Deposits or trust loans and donations; and disbursing interest-free loans, have been classified as Islamic Financial Societies. IFSs have grown from just one in 1941 to 144 in 1998 (Annex 1.2).

ii. Nature and Growth of Islamic Co-operative Credit Societies:

Co-operative movement was introduced in India in 1912[9]. As a result many Co-operative Credit Societies were started. Any 10 or more persons can come together contribute their Share Capital, raise public Deposits, give loans as well as invest in business or trade and earn interest or profit. Indian Muslims have also adopted this Co-operative model and they are running many Co-operative Credit Societies and Urban Co-operative Banks, some of which like Mercantile Urban Co-operative Bank Ltd. of Mumbai and Al-Ameen's Amanath Urban Co-operative Bank Ltd. of Bangalore have attained the status of Scheduled Commercial Banks. But they are all interest based Societies or Banks. However this Co-operative model was very much suitable for establishment of Islamic Co-operative Credit Societies (ICCSs) and Banks especially in the initial

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9. Co-operative Societies Act, Govt. notification (1912)

years of Co-operative Movement when the statutory regulations on their operations were negligible and Govt. encouragement was assured. Unfortunately Indian Muslims failed to utilise the model effectively, largely because of their ignorance and the upheavals of partition. Nevertheless there was one small group of ethnic Muslim businessmen called Patni Muslims, because they hailed from Patan in Gujarat, but settled at Surat, which is famous for textiles especially Sarees, did utilise this Co-operative model for establishing an interest-free Co-operative Credit Society called Patni Co-operative Credit Society Ltd.

The Patni Co-operative Credit Society Ltd. (PCCS) was started in the year 1938, though it was registered by the Registrar of Co-operative Societies in the year 1942[10]. It is giving interest-free loans without any service charges, and also earning profits by investing part of its capital in shares of reputed companies and handlooms, which it is leasing on rent. The Society is functioning even today. It is the oldest IFI operating in the organised sector of Islamic Finance not only in India but also possibly in the world.

Co-operative Credit Societies model has been rarely utilised by Indian Muslims for establishing ICCSs. The interest-free Co-operative Credit Societies registered under Co-operative Societies Act. are classified as Islamic Co-operative Credit Societies. They have grown from 1 in 1938 to just 14 in 1998 (Annex 1.3)

iii. Nature and Growth of Islamic Investment and Financial Companies:

All the above IFIs are mostly non-profit earning. Islamic Investment and Financial Companies (IIFCs) are generally the only profit earning IFIs in India. Since Indian Banking rules and regulations do not permit operation of Islamic PLS banks, the only option left for Muslims is to establish PLS IFIs and register them as Non-Banking Financial Companies (NBFCs). This is a universal model wherein financial institutions are allowed to invest their funds in any venture on interest earning, PLS or rent earning basis. IIFCs of India using this model are mobilizing their funds through share capital, *Mudarabah* Deposits, Fully Convertible Debentures and Islamic Bonds with variable returns. They are deploying their funds mostly in *Ijara* i.e. Leasing, *Ijara-wa-iqtina* i.e. Hire Purchase, *Murabahah* i.e. Cost Plus Profit financing, Investments in Equities and Venture Capital on the principle of *Musharakah* and *Mudarabah* in decreasing order. In other words large portion of income by Indian IIFCs is earned from Leasing, Hire Purchase and *Murabahah* Investments, rather than through PLS Investments. But this is also the feature of most of the IIFCs elsewhere in the world[11]. Thus most of the IIFCs in India are classified as Leasing Companies.

Al-Mizan was the first IIFC established by the Muslim leather merchants at Chennai in 1980. But the first experience failed miserably within a decade, mainly because it did not have a diversified investment portfolio. They had put all their investment eggs in the leather goods export basket. Barkat Group of Companies was the next who registered Falah Investments Ltd. and Ittefaq Investments Ltd. in 1983 at Mumbai. Al-Ameen Islamic Investment and Financial Corporation Ltd. and Al-Baraka Finance House Ltd. were established in 1985 at Bangalore and 1989 at Mumbai respectively. Their number had increased to 49 in 1998 (Annex 1.4). Stricter Prudential Norms[12] imposed by Reserve Bank of India (RBI) in 1997-98 have led to rejection of registration and closure of some of the IIFCs. All the IFIs registered under Companies Act in India and functioning on interest-free / PLS basis are classified as Islamic Investment and Financial Companies.

iv. Nature and Growth of Financial Association of Persons:

Financial Associations of Persons (FAPs) do not belong to the organised sector of Islamic finance in India. As such they do not have any specific format or model. They are mostly using the model of IFSs.

10. Nuroddin (1968).
11. See Munawar Iqbal et al 'Challenges facing Islamic Banking' 1998, pp 67-69.
12. See Navneet Jyothi et al 'Practical Manual to NBFCs', 1999, pp 3 & 4.

However some of them also utilise the Co-operative or Company format. FAPs have always existed in some or the other form in the Muslim society. These are the result of private efforts of ordinary Muslims, living or working together in market, *Madrasas*[13], colleges, Mosques and *Anjumans*[14]. They are generally organised in the form of Chit Funds i.e. small Group Funds wherein a dozen or more people contribute their subscriptions on daily, weekly or monthly basis and pick up beneficiary's name by drawing lots. Thus every member of the Group gets an assured lump sum at no Cost, which he or she left to himself or herself is not able to save or accumulate. Some FAPs formed by Muslim businessmen collect their daily savings and provide loans of Rs.0.5 lakh to Rs.1.00 lakh, which are also refunded on daily basis within 3 to 6 months at nominal Cost. All the unregistered Associations, Groups or Societies that are performing the interest-free credit function with or without *zakah* and *sadaqah* mobilisation and distribution, are classified as FAPs. It is very difficult to reach all the FAPs and enumerate them effectively as they are most widespread, 85 of them have been identified in this study (Annex 1.1).

1.4 Geographical Spread and Growth of IfIs:

IFIs are to be found in most of the Indian states. Their numerical growth is generally co-related with not only Muslim population but also their religious and cultural identity. For instance Assam, West Bengal, and Rajasthan have 25%, 21% and 7% Muslims in the respective states but nil or negligible IFIs, mainly because the religious and cultural identity of Muslims in these states is very weak. Whereas in Karnataka, Andhra Pradesh and Maharashtra, the respective sate population of Muslims is only 11%, 9%, and 7%, the number of IFIs in the respective states is 29, 18 and 30, because in all these state the religious and cultural identity of Muslims is strong. In UP, Kerala and Bihar strong religious and cultural identity of Muslims coupled with their higher population is responsible for larger growth of IFIs. Jammu and Kashmir is the only exception. Inspite of having 65% Muslim population it has reportedly no IFIs, perhaps because of civil strife, political uncertainty and crisis of identity (Table No. 1.2).

Classification-wise the growth of IFIs in India suggests that *Maqasid-e-shariah* of Islamic Financial principles have driven Indian Muslims to establish more non-profit earning; welfare oriented IFSs and FAPs than PLS commercial IIFCs. IFSs form 49.3% and FAPs 29.1% of the total IFIs in India. Together they form 78.42% of total IFIs. IIFCs are 16.8% and ICCSs are just 4.8% of the total IFIs in India. 27 of the 49 IIFCs are being operated by 3 large Group of Companies. Al-Falah and Al-Fahad Group of companies based at Delhi comprise of 6 and 12 Companies respectively and Barkat Group of Companies based at Mumbai consists of 9 Companies.

State-wise largest number of IFIs, 73 of them or 25% of the total are found in UP. Kerala accounts for 61 or 20.89% of them. However both these states with over 20% Muslim population have no ICCSs and only 6 IIFCs. Maharashtra and Karnataka are the only other states with over 10% IFIs although the Muslim population in these states is just around 10%[15]. Assam with sizable Muslim population and Punjab with only 2% of Muslims have reportedly only one IFI each. In all 144 IFSs and 85 FAPs, 14 ICCSs, and 49 IIFCs totally 292 IFIs have been identified through General Survey of this study (Annex 1.1, 1.2, 1.3, & 1.4). There may be more IFSs and FAPs operating in India that is a large country. In Kerala itself it is said that there are over 200 IFSs and FAPs, though their addresses have not been provided[16]. However it is also to be noted that some of the IFSs and FAPs are not able to sustain themselves in the long run. Some of the FAPs are temporary and self-terminating, some register themselves and improve their performance and status in course

13. Madrasa refers to religious educational institution.
14. Anjumans are community organisations of Muslims looking after socio-cultural and educational affairs of the Muslim community.
15. Note : Muslim population% quoted in above paragraphs is based on 1991 Census figures.
16. Abdul Rehman (1998)

Geographical Distribution of Islamic Financial Institutions in India, 1998

Table No. 1.2

Sl. No.	State	IIFCs %		ICCSs %		IFSs %		FAPs%		TOTAL%	
1	Andhra Pradesh	4	22.2	2	11.1	7	38.9	5	27.8	**18**	**6.2**
2	Assam	-		-		1	100.0	-		**-**	**0.3**
3	Bihar	-		-		22	91.7	2	8.3	**24**	**8.2**
4	Gujarat	-		2	28.6	3	42.9	2	28.6	**7**	**2.4**
5	Karnataka	6	20.0	4	13.3	8	26.7	12	40.0	**30**	**10.3**
6	Madhya Pradesh	-		-		2	50.0	2	50.0	**4**	**1.4**
7	Maharashtra	12	37.5	6	18.8	8	25.0	6	18.8	**32**	**11.0**
8	Punjab	-		-		1	100.0	-		**1**	**0.3**
9	Rajasthan	-		-		-		3	100.0	**3**	**1.0**
10	Tamilnadu	1	7.1	-		10	71.4	3	21.4	**14**	**4.8**
11	Uttar Pradesh	3	4.1	-		39	53.4	31	42.5	**73**	**25.0**
12	Delhi	20	100.0	-		-		-		**20**	**6.9**
13	West Bengal	-		-		2	50.0	2	50.0	**4**	**1.4**
14	Kerala	3	4.9	-		41	67.2	17	27.9	**61**	**20.9**
	TOTAL	**49**	**16.8**	**14**	**4.8**	**144**	**49.3**	**85**	**29.1**	**292**	**100.0**

of time. Some of the FAPs that do not have any office or permanency because they are run in private homes or institutions cannot be termed as institutions. Hence the total number of FAPs that can be called institutions and IFSs may not be very different from what is identified. The operational number of ICCSs and IIFCs identified by this study is more accurate. Though some of them have become dormant and some have closed down in 1999. Only a detailed study of each category of IFIs of India will reveal their true status.

CHAPTER 2

FINANCIAL ASSOCIATIONS OF PERSONS

Financial Associations of Persons (FAPs)-are unregistered, privately operated, smaller functional groups operating in mosques, educational institutions or markets, throughout the country. In mosques or *Anjumans* they have taken the form of smaller Bait-ul-Maals wherein *Zakah* funds are mobilized along with membership fees and donations, and interest-free *Qard-e-Hassan* loans are also extended. In the educational institutions they have taken the form of interest-free Chit Funds wherein groups of 25 to 30 staff members contribute a monthly fixed sum. One or two persons share the monthly draw at no Cost. In the markets, the groups of Muslim businessmen coming together for mutual financial assistance are slightly bigger. Denied by Banks and exploited by *Marwari* moneylenders who charge over 36% interest, groups of 50 to 100 Muslim businessmen come together to form an Association for mobilizing their own savings and getting interest-free, low Cost loans.

Majority of these Associations of Persons are actually self- help groups mobilizing and providing low Cost interest-free capital. These loans are used more for consumption than production purposes. But recently more and more Muslim businessmen are adopting this format to augment their business capital. There are hundreds of Associations of Persons operating throughout India. It is very difficult to identify and enumerate all of them because they operate from homes, shops or institutions. The amount of interest-free loans extended by them may be running into a few hundred lakh of rupees. It is not possible to calculate the amount or its impact fully. However an attempt can be made to understand their operations and performance.

Five FAPs belonging to different regions and promoted by different groups of people, representing different operational models have been studied with the help of a Stratified Sample Survey. A comprehensive 20 page Questionnaire (Annex 0.2) has been used to collect general, economic, social and managerial information of the following FAPs.

1. Barkat Association, Belgaum.
2. Shantapuram Islamic Finance Corporation, Pattikadu.
3. Interest-Free Society, Pune.
4. Millat Welfare Society, Faizabad.
5. Mutual Benefit Group, Bhatkal.

2.1 Barkat Association Belgaum 1994-1998

Belgaum is a city of about 7 lakh people with 20% Muslim population situated in Northern Karnataka bordering Maharashtra. The city is known for good climate, culture, education and trade. It is specially known for supply of tasty vegetables.

The Muslims of Belgaum are mostly engaged in road transport, both passenger and goods, spare parts of vehicles and their repairs, vegetable and fruit business, beef and mutton and foot wear trade. During the 90s Belgaum's Muslim businessmen have made reasonable progress and diversified their business, thanks mainly to the establishment of various self-help groups of Islamic finance. Like Indian Muslims in general Belgium

Muslims also are not able to get necessary assistance from Commercial Banks. To avoid the 3% monthly interest burden charged by Marwari moneylenders on short-term business loans some Muslim entrepreneurs following the example of small Chit Funds prevailing all over the country, started a FAP called Federation in 1986. It was closed in 1997 because of the misunderstanding among its organizers. But it led to the birth of seven similar groups between 1995 and 1999 viz.

1. Khwaja Garib Nawz Association.
2. Razzaq Association.
3. Barkat Association.
4. Al-Ameen Association.
5. United Commercial Organisation.
6. Rehmat Association.
7. Khidmat Association.

The experiences gained by managers of these groups have led them to register a Co-operative Society in 1997 called Barkat Co-operative Credit Society Ltd. They intend to run it on interest-free Islamic principles.

For detail study we have taken up only one of the seven groups called 'Barkat Association.' It was started in the year 1994, with a membership of 75 Muslim businessmen of Belgium. Following table gives the economic details of its performance. (Table No: 2.1)

2.1.1 Economic Performance:

Fixed Deposits per member, which includes membership fees has remained fixed at Rs.22000. But total Deposits have increased from Rs.16.5 lakh in 1994-95 to Rs.30.4 lakh in 1997-98 because of the increase in membership from 75 to140. Total number of interest-free annual disbursal of loans during the same period has increased from 129 to 177 in 1996-97 but declined to 114 in 1997-98, the average loan amount increasing from about Rs.70000 till 1996-97 to about Rs.1.25 lakh in 1997-98 meaning thereby that some of the old members have been sanctioned loans of up to Rs.2 lakh. Operational Cost of loan disbursals was very low at 0.55% in 1994-95. It increased to 1.00% in 1996-97 because a computer was purchased in that year. The Cost in the following year has declined to 0.35%, whereas larger and registered IFIs of India are struggling to keep their operational Cost up to 10%. Barkat Association is also maintaining a Reserve Fund for acquiring its own office premises (Table No: 2.1)

Splendid economic performance indeed. The modus operandi is that membership is only open to permanent Muslim Businessmen of Belgaum. Each member has to pay membership fees of Rs.10000/-and a deposit of Rs.5000 on each loan of Rs.1 lakh. A further amount of Rs.650 is to be paid per loan towards meeting the operational Costs of Association and Rs.350 as building fund. A loan of Rs.50000 to 1 lakh is given to members for not more than 6 months. Every borrower has to immediately start paying a daily installment of Rs.350 on loan of Rs.50000, Rs.450 daily on a loan of Rs.75000 and Rs.600 on a loan of Rs1 lakh. A member who delays the repayment for more than 10 days gets only 75% of the next loan. For the delay of more than 15days next loan amount is cut to only 50%. For more than a month's delay no loan is sanctioned for next 6 months. Any shortages in repayment of loan amount are recovered from the two guarantors. That's how there are some outstanding loans but no bad debts. Voluntary working of all the office bearers of Managing Committee, selected unanimously by members every year, minimizes operational Costs. All the other six Associations of businessmen of Belgaum are following more or less same model.

2.1.2 Social Performance

BAB is an economic and not social entity. Hence it does not have any direct social impact. However multiplication of such associations in the city of Belgaum has created a favourable economic as well as social impact on the Muslim businessmen of Belgium. They are now comparatively well off, their socio-economic status and confidence level have gone up.

2.1.3 Managerial Performance

A Chairman, Vice Chairman, Secretary and Treasurer who work voluntarily, manage the operations of BA, with the help of part-time accountant who is the only paid staff, getting Rs. 1500 p.m. The only objective of Management is to provide cheap interest-free credit to its members. The objective is being attained satisfactorily. The question of co-operation from others does not arise. The Management is looking for opportunities to diversify its operations and has registered a Co-operative Credit Society called Barkat Co-operative Credit Society Ltd.

2.1.4 Problems and Prospects

In different towns of India there are different types of Financial Associations of Persons. Majority of them are philanthropic in nature. In a secular country like India where the financial rules and regulations are not conducive for establishment and operation of interest-free Islamic Banking, these financial non-profit Associations of Persons are providing significant economic funds to the minority businessmen. Their role is however limited, as they cannot have more than 150 members. Nor can they finance large business for longer period to larger areas. Their unorganised and private functioning does not allow them to be regulated or growth oriented. Hence they operate successfully only on smaller scale, for shorter periods. Nevertheless in the absence of helpful legal provisions, where interest-free banking cannot be established, this model of Financial Association of Persons can serve the Muslim businessmen well at grass root level, especially in the short run and sustain their business in the era of increasing privatisation and market competition. Many Associations of Persons are being operated by Muslim as well as non-Muslim small businessmen in various Indian cities.

2.2 Shantapuram Islamic Finance Corporation Pattikadu Kerala 1991-98

Shantapuram is a locality in Pattikudu town of Muslim dominated district of Malappuram in Kerala. The people of Kerala are generally known in India for their higher socio-economic and political consciousness, because of higher literacy and lingual unity. Malayalam, the sole mother-tongue of all Keralites is known to be the oldest and mother of all other south Indian languages. Islamic missionaries and the Muslim traders are credited to have brought Islamic culture first to Kerala much before it reached other parts of India. The Muslims of Kerala have established over 200 comparatively small IFIs[17]. Majority of them are unregistered. Perhaps the Muslims of Kerala have realized that given the unhelpful nature of state laws and their minority status it is wiser and economically more viable to establish scores of smaller interest-free lending Associations of Persons than to establish a few larger IFIs. Though Assalam Financial and Investment Company (P) ltd. of Calicut in Kerala is the first IIFC in India to have complied with the RBI's Prudential Norms and receive RBI registration, there are hardly any big IFIs in Kerala. Even Assalam Financial and Investment company is much smaller in size and has freezed its operations since 1998-99.

Kerala unit of Jamat-e-Islami Hind has been taking keen interest in promoting IFIs. Last year it had organised a powerful public campaign against interest all over the state from 1st April 1999 to 31st May 1999. At the end of which about 150 new IFIs are expected to be registered. Malappuram district has dozens of small IFIs. They are performing various socio-economic functions mainly for the well being of Muslims.

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17. Abdul Rehman (1998).

Besides providing interest-free loans, they are collecting and distributing Zakah, and also organizing Chit Funds. Many of them are also running provision stores or rubber plantations etc. to earn some income and meet the operational Costs of Associations and Societies. Shantapuram Islamic Finance Corporation has been selected for our study because, it represents the general nature of unregistered Associations of Persons proliferating all over Kerala.

2.2.1 Economic Performance

Shantapuram Islamic Finance Corporation (SIFC) of Pattikadu was started in the year 1991. It was able to mobilize a total capital of more than Rs.1 lakh in the very first year of operation. It consisted of membership shares in multiples of Rs.10, donations and Association's income. Every member of SIFC contributed a monthly share of Rs.10 or more, only 25% of which was withdrawable once in a year. Member's share amount had increased form Rs.40000 in the first year to Rs.5.06 lakh in 1997-98, registering an increase by over 12 times during 7 years. The contribution of member's share in the total Capital has increased from about 40% in the first year to over 82% in 1997- 98.

Donations are the next important source of Funds. However its contribution has gradually declined form almost 50% of total Capital to just 8.39% (Table No. 2.2). Income earned from different sources is also an additional source of capital, although 50% of the income earned from rubber plantation and Chit Funds is distributed to shareholders in the next financial year. SIFC organizes Chit Funds of Rs.5,000 to Rs.10,000 for short duration of 5 to 11 months for its members. The first draw is generally handed over by members to SIFC as its income. SIFC has also invested Rs.1 lakh in rubber plantation in the year 1993- 94, which is fetching regular income of Rs.10,000 to Rs.25,000 annually. The income of SIFC has generally formed 8% to 10% of total Capital. A small portion of income consists of nominal fees of Rs.10 collected form borrowers of interest-free loans as service charges. The total Capital of SIFC has multiplied by about 6 times from Rs. 1.01 lakh in 1991-92 to Rs.6.1 lakh in 1997- 98.

2.2.2 Loans

The main objective of SIFC is distribution of interest-free loans to its members generally against the security of their own share in the Association or just against the guarantee of two members. The amount of loan depends on the amount of member's share and regularity of contribution. Loans are given for only 6 months they are to be refunded in 3 to 5 installments. In the beginning, amount of loan given per member was very small, in fact less than Rs.1000, as their contributions were less. Subsequently towards the end average loan had increased to Rs.2000, though some loans of even Rs.5000 were given. The total loans disbursed had increased from Rs.60400 in 1991- 92 to Rs.4.8 lakh in 1997-98. The total number of loans has risen from 124 to 287 during same period. The total percentage of outstanding loans for more than six months was much higher and increasing during the first 3 years of Association's operations, perhaps because of lack of expertise. However in subsequent years it has been brought down gradually from 46.33% in 1993-94 to just 12.22% in 1997-98. So far the Association has reported no bad debts. The operational Cost of extending interest-free advances was higher and increasing during the first 3 years because of smaller amounts of loans. In latter years it has gradually declined to just about 4% in 1997-98.

Unlike most of the FAPs in other states, SIFC distributes 50% of the income earned from operating Chit Funds and Investment in rubber plantation, as profit to members on the basis of their share contributions. The member's share of profit has generally gone down from 12.5% to 5.5% (Table No.2.2) mainly because profit earning is not the main objective of SIFC. The profits are only incidental. The SIFC is also maintaining some Reserves that have gradually increased from Rs.15850 in the first to Rs.28714 in the last year of operation.

2.2.3 Social Performance

SIFC is Infact more engaged in the endeavors to usher in socio-economic justice in the society by eliminating interest, rather than promoting economic progress. Welfare of the people with small means and implementation of Islamic financial principles are the objectives of SIFC. Most of the un-registered IFIs of Kerala are similarly disposed. Their sphere of influence may be small and their effectiveness limited but their efforts are sincere. Unlike dozens of larger urban-based Islamic Financial Companies in India that have duped the people and shattered their confidence. Associations likes SIFC may be smaller but more successful in attaining their objectives and winning the confidence of people. 99% of the members of SIFC are Muslims, about 25% of whom are women.

2.2.4 Managerial Performance

An Executive Committee comprising of 4 office bearers, a President, Vice President, Secretary, Treasurer and 4 members all elected by General Body manage the affairs of SIFC. They are receiving satisfactory cooperation from local masses and *Ulemas*. Since it is an unregistered organisation, they are not concerned with the officials. They do not advertise their activities, nor do they bring out any reports. However members are informed about the budget and performance of the Associations during meetings. They have no immediate plans for expansion or diversification of the activities of Association. Infact they are for starting more such groups rather than expansion. They are satisfied with the performance of their Association. They have a staff of just 3 persons who are employed on part-time basis. The accounts-in-charge is paid Rs 500 and the two attenders are paid Rs.300 each. The office bearers too work voluntarily on part time basis. This is how they are able to keep the operational Costs down. The accounts are self-audited. Reserves and surplus cash are kept in the current account of local banks. Staff is not trained.

2.2.5 Problems and Prospects

Major problem afflicting unregistered IFIs in Kerala is legality of their Associations. Because majority of them are also making some investments, and earning as well as distributing some returns. They are also accepting public Deposits in some form or other for commercial gain. Hence they may be perceived to be violating the financial norms of the country. Their operational size is the next problem. They cannot grow bigger without registration and regulation. Hence they will reach stagnation sooner than later if they do well. Thus there are limits to the vertical growth of FAPs. They can flourish only through horizontal growth, in other words they can retain their beauty only by remaining small. In a big country like India wherein laws are not supportive of IFIs, smaller Financial Associations will always play a big role in keeping alive the principles of Islamic finance.

2.3 Interest-Free Society Pune 1996-2000

Pune city has been the head quarter of Maratha Peshwas[18]. It is also known as cultural capital of Marathas. There are about 10% Muslims in Pune. Most of them are small businessmen. Interest Free Society Pune (IFSP) at Mominpura in Pune, Maharashtra was started by some of the trustees of Makka Mosque in 1996. The trustees were already running a Bait-ul-Maal wherein; only *Zakah* was collected and distributed. A self-help group of 25 Muslims came together to form the IFSP in July 1996. Most of the members are small businessmen a few are teachers. They contributed Rs. 500 each for 6 months, mobilized Rs.75000 and started giving loans of Rs.10000 to its needy members, to be refunded in 15 equal installments. Subsequently

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18. Peshwa refers to Head of Maratha State.

each member continued to contribute Rs.200 every month. 2% of the loan amount is being collected as service charges. In course of time the society intends to give loans of Rs. 25000 to Rs. 50000 to its members.

2.3.1 Economic Performance

Table No. 2.3 provides information about the economic performance of IFS P. total Deposits have increased from Rs 90000 in 1996-97 to Rs 2.70 lakh in 1999-2000. The number of loans has increased from 8 in the first year to 25 in the last year. The average loan disbursed has remained same at Rs.10000. The total operational Cost of loans has increased marginally from 1.5% to 1.84%. Although the amount of outstanding loans has increased from Rs 25000 to Rs76000 the Management says there are no bad debts.

Economic Performance of Interest-Free Society Pune, 1996-2000.

Table No. 2.3 **(In Rs.)**

Year	Members	Total Deposits	No. of Loans	Amount of Loan Disbursed	Total Cost	Out Standing Loans *	Reserve Funds
1	2	3	4	5	6	7	8
1996 - 97	25	90000	8	80000	1200	25000	10000
		66.70%		88.89%	1.50%	31.25%	11.11%
1997 - 98	25	150000	13	150000	1400	40000	2000
		40.00%		100.00%	0.93%	26.67%	1.33%
1998 - 99	25	210000	20	200000	3000	48000	13000
		28.60%		95.24%	1.50%	24.00%	6.19%
1999 - 2000	25	270000	25	250000	4600	76000	35000
				92.59%	1.84%	30.40%	12.96%

Note: 1. *Out Standing After 15 Months.
2.% in Column 3 refers to Growth Percentage.
3.% in Column 5 & 8 are percentage of Column 3.
4.% in Column 6 & 7 refer to percentage of Column 5.

Since the loans are given only to the members who are well known to each other, it is felt each loan will be fully recovered.

2.3.2 Social Performance

IFSP has no specific social agenda. The Society has only 25 members all of whom are Muslim males. Moreover it has a standing of only 4 years. However the successful working of this IFSP has led to the establishment of three more similar Societies in other localities of Pune.

2.3.3 Managerial Performance

The only objective of Interest-Free Society Pune is to provide cheap interest-free loans to its members. It is managed by a Chairman and Secretary who are assisted by Assistant Secretary, who is paid Rs.300 per month to keep the accounts and recover loan installments. There is a good understanding amongst the members of the group who meet almost daily after evening prayers. They have succeeded in promoting three more similar groups in Pune. They are engaged in consolidating the gains of Society rather than diversifying its activities. They are not concerned with co-operation of others.

2.3.4 PROBLEMS AND PROSPECTS:

In the prevailing socio–economic set up wherein it is very difficult for common Indian Muslims without means to get any loans from Banks, IFSP is not only providing easy but almost Cost free finance. The 2% service charges they have to pay is much less than the time and money they have to spend on getting a loan sanctioned from conventional financial institutions besides the interest burden of such loans. Thus FAPs like IFSP are helping some Muslim businessmen to sustain their endeavours for economic survival. The problem with these Associations is that given the legal constraints they cannot function on large and professional scale. They will remain a part of unorganised Islamic financial sector, whose success is limited, and indefinite. They can only sustain economic survival rather than promote economic growth.

2.4 Millat Welfare Society Faizabad 1986-1992

Faizabad is the District Headquarter in Uttar Pradesh. It has become more famous because of Ayodhya and the demolished Babri Masjid that are part of the district. The population of Muslims in Faizabad is less than 15%. Their economic condition is also unsatisfactory. The merchants of ***sabzi mandi*** i.e. vegetable market established Millat Welfare Society (MWS) of Faizabad in 1985. It was registered in the year 1993 as a Society under Societies Act. Till 1992 MWS has functioned as FAP and progressed to the status of registered Society. Thus MWS is a unique FAP. We will discuss the performance of MWS only till it remained FAP i.e. from 1986 to 1992.

2.4.1 Economic Performance

The MWS has been functioning like Co-operative Bank. The merchants of vegetable market are maintaining their Deposits with MWS mostly in its current account because these Deposits are withdrawable any time. The total Current Deposits have increased from Rs. 25,000/- in 1986 to Rs. 3.5 lakh in 1992. The Society is also mobilizing Daily Deposits but these are surprisingly not very popular. The Daily Deposits have increased from Rs. 5,000/- in 1986 to Rs. 70,000/- in 1992. The total Deposits have increased from Rs. 0.30 lakh in 1986 to Rs. 4.20 lakh in 1992. The withdrawals of Deposits are rather heavy. Hence MWS has to keep comparatively more cash at its disposal.

MWS provides interest-free loans to Deposit holders in the form of only overdrafts. The merchant Deposit holders often need cash for day-to-day purchases of vegetables, fruits etc. If they did not have sufficient cash in their account they were allowed to withdraw initially an excess amount of Rs.500 for a period of three months. In 1992 overdraft loans were increased to Rs.3000/- per member for same maximum period of three months. Unless the overdraft loan was cleared fully no new loan was sanctioned. No other security but personal guarantee of another deposit holder was accepted. In 1986 loans of only Rs.8000/- were provided. In 1992 the amount of loan had increased to Rs.1.80 lakh. A Service Charge of Rs. 25 was initially collected on a loan of Rs.500. Now about Rs.150 is collected on a loan of Rs.3000 .

Economic Performance of Millat Welfare Society, Faizabad, 1986-1982.

Table No 2.4 **(In Rs.)**

Year	Current % of Deposits 4	Daily % of Deposits 2	Total Deposits	Total % of Loans 4	Service % of Charges 5	Total% of Cost 5	Cash % of Reserves 4
1	2	3	4	5	6	7	8
1986	25000 80.0	5000 20.0	30000	8000 26.7	550 6.87	1200 5.0	21350 71.2
1992	350000	70000 20.0	420000	120000 28.6	7280 6.07	9460 7.9	298820 71.2

Data for all the years of MWS is not available because since 1993 it is operating as IFS with some changes in its functions. However Table No. 2.4 does provide a fair idea about the functioning of MWS as FAP. The loans disbursed by MWS have formed only 26.67% to 28.57% of the total Deposits. As already explained they have to keep large amount of cash at their disposal to meet the daily needs of merchants. Service Charges collected have formed only 6.07% of loans, although total Costs were 7.88% of loans in 1992. The deficit in Cost is generally met by way of donations from depositors. Cash Reserves form over 71% of the total Deposits. No other reserves or fixed assets are maintained.

2.4.2 Managerial and Social Performance

A Managing Committee unanimously selected by depositors manages the Society. The Managing Committee consists of a President, Vice-President, Secretary and Treasurer. The Managing Committee is assisted by a part-time accountant, who is paid Rs.300 per month. Except helping the depositors with small loans the society is not providing any other service. The deposit holders are mainly male Muslim businessmen. The Society does not have much social impact. Main aim of the Management is to popularize Islamic Banking practices. The Management is only relatively satisfied about attainment of its objectives. More non-Muslims are welcome though not planned for. They are receiving satisfactory co-operation from Muslims. The question of other's co-operation does not arise. They did not get their accounts audited earlier, but they are doing it now. They are not aware of Islamic Investment Windows being operated by Multi-national Banks in India. They did have expansion and diversification plans as a result of which they have succeeded in registering their Society. The Society is in favour of forming a strong federation of IFIs in India.

2.4.3 Problems and Prospects

Management of MWS feels that lack of patronage of IFIs is the factor largely responsible for their slow growth. Transactional problems, lack of modern financing facilities and Reserves, operational losses are the other problems listed by the Management. The Management suggests that diversification of their functions to profit earning and distribution activities, together with pooling of experiences of IFIs of India may be helpful in solving some of their problems. The Management does not seem to be aware of statutory and regulatory problems of financial institutions in India especially the recent changes. It will be interesting to watch the growth of MWS now that it is a registered Society. As an unregulated, unregistered, private Association it could perform the functions it has performed. As a registered Society its functions will be more regulated.

2.5 Mutual Benefit Group Bhatkal 1982-1994

There are various models of Financial Associations of Persons operating throughout India. We have already considered those that are functioning in market and mosques. Some of them are also operating in *madrasas*, schools and colleges managed by Muslims. The staff members of these institutions often come together, contribute their monthly share and one or two members get the entire collection of the month. Thereby they meet their credit requirements at no Cost. Mutual Benefit Group (MBG) of Anjuman Arts Sc. and Commerce College was started in 1982. It was liquidated in 1994 after the shifting of its principal.

Anjuman Arts, Science and Commerce College of Bhatkal is managed by Muslims. It has permanent staff of about 40 members, including half a dozen Non-Muslims. About 15 members of staff came together to form a Mutual Benefit Group in 1982. Each member of the group initially contributed Rs.200 every month. Every month one member of the group whose name was drawn by lots was given the total collections of Rs.3000. Monthly contributions and total collections were subsequently raised to Rs.400 and Rs.6000 respectively. Thus one member of the Group received Rs.6000 every month at no Cost. The amount received by members was generally spent on consumer durables.

2.5.1 Economic Performance

The membership of MBG has remained more or less constant at 15. Monthly contributions have increased from Rs. 200 initially to Rs. 400 in 1991. The annual disbursals have increased from Rs. 36000 in 1982 to Rs. 72000 in 1991 and remained same till the end in 1994. There are no Operational Costs, Bad Debts or Reserves and Fixed Assets. This is the simplest form of FAP, which operates on the pattern of private Chit Funds. They do not have much economic significance as they serve mostly only consumption needs of small groups of people. They operate over shorter period of 12 to 15 months depending upon the number of members. MBG was terminated like many similar arrangements, in 1994.

Economic Performance of Mutual Benefit Group Anjuman College, Bhatkal, 1982-1994.

Table No.2.5 **(In Rs.)**

Year	No. of Members	Fixed Deposit Per Member	Total Deposits	Total No. of Loans	Amount Per Loans	Total Loans	Operational Costs	Reserve & Assets	Bad Debts
1	2	3	4	5	6	7	8	9	10
1982	15	200x15x12	36000	12	3000	36000	NIL	NIL	NIL
1983	15	200x15x12	36000	12	3000	36000	NIL	NIL	NIL
1984	15	200x15x12	36000	12	3000	36000	NIL	NIL	NIL
1985	15	200x15x12	36000	12	3000	36000	NIL	NIL	NIL
1986	15	200x15x12	36000	12	3000	36000	NIL	NIL	NIL
1987	16	250x16x12	48000	12	4000	48000	NIL	NIL	NIL
1988	16	250x16x12	48000	12	4000	48000	NIL	NIL	NIL
1989	16	250x16x12	48000	12	4000	48000	NIL	NIL	NIL
1990	15	250x16x12	48000	12	4000	48000	NIL	NIL	NIL
1991	15	400x15x12	72000	12	6000	72000	NIL	NIL	NIL
1992	15	400x15x12	72000	12	6000	72000	NIL	NIL	NIL
1993	15	400x15x12	72000	12	6000	72000	NIL	NIL	NIL
1994	15	400x15x12	72000	12	6000	72000	NIL	NIL	NIL

2.5.2 Social and Managerial Performance

MBG was too small and private to have created any social impact. It did not have any long run objectives. Its only objective of collecting fixed monthly contributions of all the members and ensuring that every member in turn gets the monthly draw, was satisfactorily attained. The Principal of College, who was honorary President and a member Secretary, selected by the Group unanimously, managed MBG. The Group was not concerned with co-operation of others, nor did it plan to expand or diversify its activities. The cash or cheque collections and distributions were made in a day hence there was no question of any Reserves or Assets to be kept in Bank.

2.5.3 Problems and Prospects

MBG with its limited objectives functioned smoothly for 12 years. Majority of similar groups function for much smaller period. In a way such groups are self-terminating after the completion of each round, when every member draws the collections of the Group. Thus Muslims as well as non-Muslims generally organize MBGs with limited objectives for shorter durations. As a result they do not have any growth prospects. However they do serve credit needs of its members and they are proliferating all over the country.

CHAPTER 3

ISLAMIC FINANCIAL SOCIETIES OF INDIA

The Muslim clergy of India was mainly responsible for establishment of Muslim Funds, Islamic Welfare Societies and Bait-ul-Maals. They are registered under Society and Trust Act. of respective States of India. These are mainly non-profit welfare oriented institutions, generally smaller in size, catering to the socio-economic needs of poor sections of local Muslims. They are based on *Quranic* guidelines of ***Qard-e-Hassan***, ***Zakah*** and *Sadqah*. They moblise local savings as ***Amanah*** and extend interest-free loans usually against the security of gold ornaments. Some of them also moblise and disburse *Zakah* and *Sadaqah* funds. Muslim Funds are operating largely in North India mainly in UP; Islamic Welfare Societies and Bait-ul-Maals are operating in South India. There may be over 150 Muslim Funds, Islamic Welfare Societies and Bait-ul-Maals functioning in India, 144 of them have been identified by this study (Annex 1.2). Despite small operational size they are more popular and widespread than other forms of IFIs in India.

Five sample units of Islamic Financial Societies (IFSs) representing different forms and parts of the country have been carefully selected for in depth study. Primary data has been collected on economic, social and managerial performance of each institution. Their problems as well as prospects have also been assessed. The economic performance data has been presented in respective tables. The five IFSs selected for study are:

1. Muslim Fund, Deoband, (UP).
2. Muslim Fund, Najibabad, (UP).
3. Toor Bait-ul-Maal, Hyderabad, (AP).
4. Bait-ul-Maal Tamilnadu, Chennai, (Tamilnadu).
5. Islamic Welfare Society, Bhatkal, (Karnataka).

3.1 Muslim Fund, Deoband, 1961-1999.

Deoband has been the beacon of light for Indian Muslims in many ways. Its world famous ***Darul-Uloom*** has been serving Indian Muslims for over a hundred year. The same ***Darul-Uloom*** has also been responsible for promoting large number of non-profit earning interest-free Islamic Financial Societies throughout India during the troubled times of post-partition. Moulana Sayed Asad Madni with the help of Moulana Shamim Ahmad and others at ***Darul-Uloom*** Deoband started the trend setting Muslim Fund Deoband in 1961[19]. Infact it was the Shaikh-ul-Islam Moulana Sayed Hussain Ahmad Madni who had conceived the model of Muslim Fund. It was first put in to practice by his disciples at Tada Bawli in District Rampur of U.P. in 1941. It became the victim of partition turmoil in 1947. It was revived at Deoband in 1961 as a panacea to the economic ills of Muslim masses and to the growing menace of Mahajan and moneylender inflicted rural misery. First partition and then land reforms, in which lot of Muslims lost their lands, especially in North India, had worsened the socio-political and economic conditions of Muslims. Muslim Fund Deoband (MFD) was established to provide succor to poor Muslims.

19. See Moh. Haseeb Siddiqui, "30 years of Muslim Fund Deoband", MFD Trust, Deoband, Dist. Saharanpur, UP. 1991. pp 1.

3.1.1 Economic Performance

For the religious teachers of *Darul-Uloom* Deoband, who were not well versed in the issues of modern economy and finance it was not easy to conceive, establish and manage an IFS. The simple model they could think of was based on the principles of Islamic Finance such as interest-free lending and *Qard-e-Hassan*. Guided by these principles they started mobilizing small savings of farmers and poor section of Society on day-to-day basis for giving them interest-free loans, generally against the security of gold and silver ornaments. MFD and other Muslim Funds, Islamic Welfare Societies and Bait-ul-Maals are following this model for about four decades in India. At the end of first year of operations in 1962 the total Deposits raised by MFD were just Rs. 62345. By 1998-99 these Deposits were increased to about Rs. 539 lakh. The total interest-free loans given by MFD increased from Rs. 31736 or about 51% of total Deposits to Rs. 318 lakh or about 59% of the Deposits during same period. As against more than 10% Cost of interest-free loan operations incurred by other IFIs, MFD seems to have succeeded in keeping its Costs down to about 6% of loans. The recovery of Operational Costs is rather arbitrary. Initially Rs. 10 were collected as Service Charges on a loan of Rs. 1000 for every quarter of an year, forming 4% of the loan amount. Loans are given for a period of only 3 months. These loans are recovered on quarterly basis till they are repaid. After 1990 about 10%of the loan amount is being charged as Service Charges. Thus the recovery is more than Cost. (Column 6, Table No. 3.1).

The officials of MFD claim that they have no bad debts at all, although they admit Non-Performing Assets are a cause of concern, meaning thereby that some people who may be very poor, do not pay either the Service Charges or the loan amount. As a result some of the long overdue loans are written off in deserving cases. In some cases the Service Charges are waved off. But the gold ornaments are never sold by MFD to recover their dues. Sometimes the borrowers themselves may volunteer to sell the ornaments and settle dues. In the absence of relevant data it is not possible to assess the incidence of bad debts and recovery percentage of Service Charges or the composition of income and surplus. The earnings of MFD are however always higher than the expenditure. (Column 5, Table No. 3.1). A part of Reserves are admittedly kept in Fixed Deposits. The MFD has built Fixed Assets worth more than Rs. 150 lakh.

MFD is also running educational and medical institutions. Madni Eye Hospital was started in its own building in 1985. Typing and Shorthand are being taught along with ITI courses in Madni Technical Institute. MFD has a staff of over 36 employees. The employees are paid adequate salaries. The General Manager gets Rs. 6000 per month, the Office Superintendent gets only Rs. 4000 per month. Senior Clerks are paid Rs. 3500 per month, Junior Clerks get Rs. 3000 and the Attenders are paid Rs. 2000 per month. Two months Bonus Salary is also paid to employees on the occasion of *Eid-ul-Fitr* and *Eid-ul-Azha*.

3.1.2 Social Performance

MFD is more a social than economic organisation. It treats interest more as a social evil. The economic benefits are only incidental. The main objectives of MFD are to help the poor and downtrodden people meet their urgent financial needs without being victimized by the exorbitant interest rates charged by Moneylenders and Mahajans. The average amount of interest-free loan, which is less than Rs. 5000 is not enough to attain economic progress. About 15% of the beneficiaries of MFD are non-Muslims. Women form overall about 30% of the beneficiaries. Besides giving interest-free loans MFD distributes books and sewing machines, medicines, and various relief items to deserving people. MFD also runs a technical institute and hospital.

Survival and progress of MFD owes much more to its trend setting trail and poverty alleviation endeavors than economic viability. MFD is expected to survive and flourish because it is engaged in implementing the socio-welfare agenda set forth by Holy *Quran*. MFD's social significance emerges from 38 years of its socio-economic service to the poor farmers and women of Deoband and the 100s of similar IFSs that it has inspired throughout Indian subcontinent. The largest IFS, Muslim Fund Najibabad with over 29

Economic Performance of Muslim Fund Deoband, 1962-1999

Table No. 3.1 **(In Rs.)**

Year Jan to Dec	Amanath Deposits	Total Loans	Total loans as% of 2	Total Cost	Total Cost as% of 3	Income	Income as% of 4	Surplus	Fixed Assets At Cost
1	2	3		4		5		6	7
1962	62345	31736	50.90%	NA		NA			
	599.80%	1781.56%							
1967	436291	597132	136.87%	NA		NA			
	296.23%	178.76%							
1972	1728737	1664544	96.29%	NA		NA			Office Bldg.
	110.28%	47.20%							3.00 lakh
1977	3635121	2450189	67.40%	NA		NA			
	101.64%	-5.80%							
1982	7329940	2307905	31.50%	NA		NA			Hospital
	64.16%	79.64%							10.00 lakh
1987	12032638	4145919	34.45%	NA		NA			-1985
	90.95%	263.33%							
Apr to Mar									
1991-92	22976912	15063237	65.60%	1055751	7.00%	1597736	151.30%	541985	
	8.05%	10.19%		9.42%		25.42%		56.58%	
1992-93	24826292	16594771	66.80%	1155254	6.96%	2003916	173.50%	848662	
	13.30%	6.42%		48.29%		6.70%		(-)49.92%	
1993-94	281279899	17660071	62.80%	1713096	9.70%	2138141	124.80%	425045	
	19.37%	10.03%		(-)22.59%		(-)45.82%		(-)99.99%	
1994-95	33577330	19431263	57.90%	1326026	6.80%	1158336	87.40%	-157690	
	6.54%	14.59%		13.06%		83.36%			
1995-96	35774169	22267353	62.24%	1499175	6.70%	2123948	141.70%	624773	
	3.58%	11.56%		10.18%		25.85%		63.45%	
1996-97	37054210	24842176	67.64%	1651766	6.60%	2672971	161.80%	1021205	
	27.46%	9.71%		(-)1.96%		14.82%		139.88%	
1997-98	47230424	27254131	57.70%	1619513	5.90%	3069233	189.50%	2449720	
	14.09%	16.59%		15.06%		14.04%			
1998-99	53886123	31776264	58.97%	1863335	5.90%	3500072	187.80%	1636737	150.00 lakh*

Note : 1 * Value of the Fixed assets including buildings.

2 % in other columns refer to growth percentage.

branches was modeled entirely on the pattern of the MFD. Very few IFSs in India have gone beyond the agenda of MFD. The IFSs in south India have added mobilisation and distribution of *zakah* and *sadaqah* to the MFD model.

3.1.3 Managerial Performance

A General Body, Managing Committee and Working Committee manages MFD. Any male or female who pays fees of Rs 2 can become a member of its General Body. The General Body elects a 17 member Managing Committee, who are also the trustees of MFD. Only two members of Managing Committee retire by rotation after every five years but are eligible for a second or third term. The Managing Committee meets at least once in a year to approve the annual budget and income / expenditure account of the year.

Working Committee consists of 9 persons, 5 office bearers including Vice-President, Secretary, Treasurer and Manager, and 4 members of the Managing Committee, all of them are nominated by the life-time President of all the 3 bodies Hazrat Moulana Asad Madni. The Working Committee meets at least once in 4 months. The main objectives of Management are:

1. To provide means for the social and economic up-liftment of the poor and needy persons.
2. To accept Deposits without interest.
3. To advance without interest loans to the needy persons, against gold or silver ornaments or such other securities or sureties as may be acceptable to the working committee.
4. To utilise the funds as may be received by the MFD by way of donations or by way of profit in any adventure carried on by it.
5. To help needy and destitute students to have education in social, cultural and religious field.
6. To take part in social and economic welfare of the people.
7. To pursue such other matters that will increase the utility of the Fund as may be recommended by the Working Committee.

The objectives of MFD are more social and welfare oriented. The Management is fully satisfied with the attainment of objectives. They are also satisfied with the co-operation received form *Ulemas*, Muslim masses non Muslims and Govt. officials in that order.

The Management of MFD has no plans to expand or diversify its operations. They are not in favour of forming a strong Federation of IFIs of India. Nor do they plan to approach RBI for removal of legal and statutory hurdles in the way of IFIs. They have also no programme to establish any financial or training linkages with other Indian or foreign IFIs. No training facilities are arranged for their employees. Lack of entrepreneurship and honesty in the society are regarded by MFD as the biggest hurdles in the growth of IFSs and IFIs. There is a certain rigidity in the Management of MFD.

3.1.4 Problems and Prospects

The MFD is content with their objectives and performance. They do not recognize the complexities of economic or Islamic finance. Hence they do not aim to enlarge the domain of MFD and IFSs. That in itself is the main problem. Further problem is their lack of transparency. Very little data is released that too only about their achievements. The 40 page booklet in ornamental *urdu* on "The 30 years of MFD" written by its Manager Mr. Mohammed Haseeb Siddiqui narrates only the glorified history of MFD and its activities. Names of promoters have been given more space than the accounts and performance of MFD. There is no attempt or encouragement to evaluate the functioning of MFD. Their Deployment Ratio is much less and Liquidity too high. They are also unscientific in fixing Service Charges as a result they seem to be collecting more than Costs. Their income is much more than their expenses. They seem to have a closed mind on the growth and promotion of MFD. However there is no doubt that MFD's trend setting effort has been responsible for establishment and growth of hundreds of Islamic Financial Societies all over Indian subcontinent. 38 years of its safe and secure service to people has generated lot of goodwill that is expected to see it through thick and thin.

3.2 Muslim Fund Najibabad 1971-1998

Muslim Fund Najibabad (MFN) was started in the year 1971 on the pattern set up by Muslim Fund Deoban. But Muslim Fund Deoband itself was patterned on the basis of an Interest-free Economic Fund model developed by Moulana Syed Hussain Ahmad Madni and started by his disciples at Tanda Bavali, district Rampur, U.P. in 1941, which became a victim of partition in 1947[20]. After partition and Abolition of *zamindari* system[21], the Muslim masses of North India had become increasingly poor. Their poverty and indebtedness had driven them into the vicious clutches of moneylenders and mahajans[22] who were exploiting them to the hilt. The Islamic model of interest-free Economic Fund was developed to encourage poor farmers and workers to save smaller amounts on daily or weekly basis and to get interest-free loans. Dozens of such funds led by Muslim Fund Deoband were started in northern India especially in U.P. between 1960 and 1980. Muslim Fund Najibabad with 29 branches throughout the country is the biggest one (Annex I).

3.2.1 Economic Performance

Fund Mobilisation:

The economic performance of MFN is given in Table No. 3.2 Spot Deposits are the only Deposits collected from mostly poor people. They are like Pigmy Deposits collected by agents going from door to door on daily or weekly basis. Over a period of 27 years Spot Deposits have increased from Rs. 0.91 lakh in 1971-72 to Rs. 1259.23 lakh in 1997-98. These Deposits are withdrawable any time. In fact, frequent withdrawals are a big problem. Many depositors especially non-Muslim traders have been using the facility for overnight safe keeping of the daily collections and getting rid of small change and soiled currency notes. Exchange, disposal and utilization of soiled unwanted currency notes is a big problem for the management of MFN.

Loans:

MFN provides mainly three types of loans. Loans against the security of gold ornaments, loans against personal security of two signatories which are actually unsecured loans, and educational loans, only two of which have been refunded so far. Both gold and surety loans are given for only three months. But most of the loans are renewed till they are refunded. Hence no data of outstanding or bad debts is available. Although some of the loans are decade old, no serious effort has been made to recover them. Nor the deposited jewelry has ever been sold to recover the bad debts by any of the dozens of Muslim Funds. In fact, the Managements of Muslim Funds have built the credibility of their institutions and operations on the basis of their policy of never selling deposited ornaments to recover loans. They are apprehensive of changing this policy. It is only when the borrower himself desires or he dies and his inheritors decide to sell these ornaments to settle the dues that the jewelry is auctioned or sold. Keeping the unsecured loans in check is the only measure they seem to be taking. For instance they had stopped providing unsecured loans between 1975 and 1984. Subsequently they could only contain them to a comparatively lower level of around 10%. The gold secured loans have increased from Rs. 0.60 lakh in 1972 to Rs. 383 lakh in 1998. The unsecured loans during the same period have increased from Rs. 0.08 lakh to Rs. 44.82 lakh. Educational loans are more a community welfare function started in the year 1981-82 with nominal loans of Rs. 16200.

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20. See Siddiqi "30 years of Muslim Fund Deoband (1991) pp. 1&2
21. Zamindari system refers to ownership of land by absentee landlords and cultivation by tenants.
22. Mahajan is a Hindu community of moneylendeRs.

Economic Performance of Muslim Fund Najibabad 1971-1998

Table No. 3.2

(In Rs.)

YEAR	SPOT DEPOSIT	GOLD LOANS	SURETY LOANS	EDUCATIONAL LOANS	TOTAL LOANS	TOTAL OPERATONAL COST	OPERATONAL COST RECIEVED FROM BORROWERS.	BANK INTEREST EARNINGS	DIVIDEND & MISC. INCOME	TOTAL INCOME	EXCESS OF INCOME OVER COSTS
1	2	3	4	5	6	7	8	9	10	11	12
1971-72	91328	64772	8230	0	73002	3294	3813	0	0	3814	519
			11.27%		79.93%	4.51%	115.76%				13.61%
75-76	1079265	872792	0	0	872792	28889	39056	3884	0	42941	14051
	1081.75%	88.73%			80.87%	3.31%	135.19%	9.05%		1025.84%	32.72%
80-81	6044357	3538870	0	0	3538870	165413	181495	26529	0	208025	42611
	460.04%	100.00%			58.55%	4.67%	109.72%	12.75%		384.44%	20.48%
85-86	18425007	11837460	238912	16200	12092572	907191	785531	218300	22400	1026231	119040
	204.83%	100.00%	1.98%	0.13%	65.63%	7.50%	86.59%	21.27%	2.18%	393.32%	11.60%
90-91	44064995	34408744	1079410	30400	35518554	3714492	1977089	1718278	25291	3720658	6166
	139.16%	97.89%	3.04%	0.09%	80.60%	10.46%	53.23%	46.18%	0.68%	262.56%	0.17%
95-96	89409442	27908492	3441717	58650	31408859	3888116	1181595	2086441	71763	3339799	-548317
	102.90%	96.88%	10.96%	0.19%	35.13%	12.38%	30.39%	62.47%	2.15%	-10.24%	-16.42%
96-97	101471642	33166426	2639134	56400	35861960	5963665	3119049	2915409	71041	6105499	141834
	13.49%	88.86%	7.36%	0.16%	35.34%	16.63%	52.30%	47.75%	1.16%	82.81%	2.32%
97-98	125922828	38312917	4481743	71000	42865660	8231521	3542407	4651746	954017	9148170	916649
	24.10%	92.48%	10.46%	0.17%	34.04%	19.20%	43.03%	50.85%	10.43%	49.83%	10.02%

Note 1: Column 6 percentages represent percentage of spot Deposits

2: Column 7 percentages represent percentage of total loans

3: Column 8 percentages represent percentage of total operational Costs

4: Column 9, 10 and 12 percentage represent percentage of total income

Costs:

No Service Charges are imposed on educational loans nor are any efforts made to recover these loans, though Service Charges are imposed on other loans. Initially Rs. 10 were collected as Service Charge on a loan of Rs. 1000 i.e. 1%. It was increased to 5% in 1980, 7% in 1985 and 10% since 1990. But the total Operational Costs have increased gradually from 4.51% in 1971-72 to 7.5% in 1985-86, 10.46% in 1990-91, 16.63% in 1996-97 and 19.20% in 1997-98. But Operational Costs since 1985 also include the expenditure on education and health projects. Neither separate nor systematic accounting of interest-free lending Costs is maintained, which is always a tough proposition for the low paid, non-qualified, untrained and ill-equipped managerial staff of almost all the Muslim Funds in India. The current monthly salary of a junior Branch Manager is Rs. 3575 and senior Manager Rs. 4500 per month, which works out to just about $82 and $104 respectively.

MFN and dozens of similar Funds do not afford to employ professional staff because they seek to keep the Operational Cost down. Their average Operational Costs are comparatively higher because they are also providing other social services, their Deposit mobilisation Costs are higher and scale of operations is much smaller. Their scale of operations is smaller because in secular India they have neither independent statutory status nor any appropriate regulatory body. As charitable financial Society they cannot accept more than 250 Deposits. Hence MFN that is the biggest and one of the comparatively better managed Funds, has managed to start a Nidhi Company called AL-Najib Milli Mutual Benefits Ltd., in 1990 under Indian Companies Act. Since 1990 both the institutions are operating from same offices with common staff and almost same office bearers[23].

Recovery of Costs:

Recovery of Operational Costs is a big issue for the interest-free non-profit earning Financial Institutions of India. Till 1980-81 when the number of offices and the loan disbursal were comparatively less, the Operational Cost recovered from borrowers was more than 100% but from 1985-86 the Cost recovery went on falling down from 86.59% to 43.03% in 1997-98. The Muslim Fund Management was forced to recover part of the Costs from other sources of income including Bank interest from Fixed Deposits, dividend from investments in Unit Trust of India (UTI) and other miscellaneous income.

Income:

MFN like all the other IFIs of India have no alternative but to keep their excess cash in Commercial Banks. Initially they were keeping it in Current account that earns no interest but subsequently many of them have started saving it in Fixed accounts. The earnings from Bank interest are used generally for compensating NPAs of non-Muslims, building of toilets and drainage system, payment of on-money to Govt. officials, payment of Bank interest on overdraft etc. Bank interest earnings of MFN have gradually increased from around 9.05% of total income in 1975-76 to 50.85% in 1997-98, after touching 62.47% in 1995-96. Whereas dividend earned from investments in UTI and miscellaneous income have increased from around 2.18% in 1985 -86 to over 10.43% in 1997-98. Except in 1995-96 when the MFN made a net loss of Rs. 5.48 lakh, the total income earnings have been always more than Operational Costs. These losses in 1995-96 were mainly due to failure and liquidation of a computer education center run by the Fund at Delhi.

Reserves and Assets:

Over the years MFN has built up good Fixed Assets, (Tables No: 3.3) consisting of Reserve Funds and Fixed Assets. Special Reserve and Charitable Reserve funds have been gradually merged into General Reserve fund, which has become negative during the last three years of operations, highlighting over drafts from Commercial Banks to meet losses. The Building Reserve Fund is steady at about Rs. 21.5 lakh. Office Building Assets are impressive at over Rs. 195 lakh. The total Reserve Funds and Fixed Assets are about Rs. 240 lakh in 1997-98.

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23. See Nasir M.H. "25 years of Travelogue of MFN, Urdu (1997) pp. 20 & 21.

Reserve Funds and Fixed Assets of Muslim Fund Najibabad, 1971-1998.

Table No. 3.3

(in Rs.)

YEAR	SPECIAL RESERVES	GENERAL RESERVES	BUILDING RESERVE	CHARITABLE RESERVE	TOTAL RESERVE FUNDS	OFFICE BUILDING ASSETS	HOSPITALS & SCHOOL ASSETS	FURNITURE ASSETS	OTHER ASSETS	TOTAL ASSETS	TOTAL OF RESERVES AND ASSETS.
1	2	3	4	5	6	7	8	9	10	11	12
1971-72	0	0	0	0	0	0	0	0	0	0	0
75-76	24650	15426	2407	0	42483	0	0	0	0	0	42483
80-81	30000	47992	172460	17085	267537	0	0	0	0	0	267537
85-86	30000	70546	322460	17085	440091	1676546	59213	176724	61980	1974463	2414554
90-91	0*	97512	352460	0*	449972	5523800	203406	337520	196215	6260941	6710913
95-96	0*	-1593237	2152460	0*	559223	11847769	574442	699578	1962867	15084656	15643879
96-97	0*	-1451403	2152460	0*	701057	17039141	137966	854083	2075829	20107019	20808076
97-98	0*	-1393363	2152460	0*	759097	19573463	137966	1141565	2369402	23222396	23981493

* Tansfered to general reserve

3.2.2 Social Performance

MFN is more popular and effective as a social organisation than economic enterprise. Even non-Muslim depositors have full confidence in the Management led by Mr. I.M.Zaki, as revealed by some of the interviews conducted in Najibabad. MFN is providing most required financial services of mobilising Deposits and providing interest-free loans to the illiterate, ill-treated, deprived, backward, and the unorganised sector of society which is not courted by the financial institutions of organised sector. Over all about 10% of the clients of MFN are non-Muslims, 35% of them are women. Though their percentage in some of the 29 Branches is much higher at 35%. Muslims form generally 90% of the depositors as well as beneficiaries, of whom women are about 20%. MFN dose not advertise its operations, nor does it plan to reach out to non-Muslims in larger numbeRs. Though they are satisfied with the co-operation received from Muslim masses, *Ulemas,* Govt. official, they are not satisfied with the cooperation of non-Muslims. MFN is also running a hospital and helping educational institutions with grants, loans and scholarships.

3.2.3 Managerial Performance

A General Body of 21 persons manages MFN and an Executive Committee of 11 persons, 5 of who are members and 6 office bearers, led by a President, Vice-President, Secretary, Joint Secretary, Treasurer, and General Manager manages MFN. There are about 104 office staff working in 29 Branches. But all the staff is also looking after work of Al Najib Milli Mutual Benefits Ltd. a Nidhi Company, which was started in 1990. The General Manager is paid a Basic Salary of Rs. 1500 Plus D.A etc, which comes to a total of about Rs. 6000 Per month. Manager gets between Rs. 4000 to Rs. 5000, Accountants are paid between Rs. 2500 to Rs. 3000. Clerks are paid about Rs. 2000 and Peons Rs. 1200 to Rs. 1500. But the staff is also receiving additional scale from Al Najib Mutual Benefits Ltd. No training facility is provided for staff. The chief objective of MFN Management is, to save lowest classes especially Muslims from the clutches of Mahajans and Moneylenders, who charge exorbitant rate of interest. Their secondary objectives are to provide education and health services to poor people. The Management is satisfied that the objectives are being attained. They are positive that IFIs can be eventually developed as an alternative to the contemporary financial institutions. The Management is not aware of MNCs like ANZ entering the field of Islamic finance in the sub-continent. They do have some plans for expansion of operations but not the diversification. Management has not approached Govt. or RBI for removal of statutory hurdles in the way of IFIs nor have they the confidence to approach international IFIs for technical, financial or training co-operation. However MFN had established close collaboration with Barkat Leasing and Financial Services Limited of Mumbai and arranged to promote each other's business from all the Branches of both the institutions. Unfortunately the financial problems of BLFSL and closure of its Branches in 1998-99 has had some adverse impact on MFN as well. MFN desires that equity based investments should be exempted from Income Tax and RBI regulations. Thereby it feels the doors for IFIs will be wide open.

The fact that MFN has Deposits worth Rs. 1259. 23 lakh, 29 Branches and 30 years of scandal free service to the people who are neglected by other financial institutions, is certainly laudable for its dedicated and pro-poor management, inspite of all the problems and shortcomings.

MFN Management is also laudable for their transparency. Unlike most of the other IFIs in India they provided access to most of the data and information at their disposal without any inhibition. They are aware. of most of their problems and are always looking out for solutions. It is to the credit of MFN Management that they have taken lead in founding, and housing the office of Federation of Interest-Free Organisation (FIFO) in their own head office at Najibabad. Mr. I.H.Zaki is its Secretary. It was in order to solve the problems of growing Deposits and excess liquidity that after lot of deliberations MFN had registered a subsidiary in the name of Al-Najib Milli Mutual Benefits Ltd., a Nidhi Company in 1990, which is still growing and has 41 Branches.

3.2.4 Problems and Prospects

The main economic problem of MFN is that even though its Deposit mobilisation efforts are very good (Table No. 3.2), the Spot Deposits having grown to be over Rs. 1259.23 lakh at the end of 1997-98, total loans outstanding at the same period are only about Rs. 428.66 lakh i.e., 34.04% of the Deposits. In fact, in 1971-72, 1975-76 and 1990-91 over 80% of Deposits were loaned but between 1995 and 1998 the loans have fallen to around 35% only. In other words MFN has substantial liquid cash without any avenues of its use. In addition to the substantial liquid cash they have also got the gold jewelry worth more than Rs. 400 lakh. However we cannot apply the yardsticks of a Commercial Bank to judge the operational efficiency of Muslim Funds. Loans are not the assets of Muslim Funds nor credit creation their objective. Besides the Spot Deposits of Muslim Fund are only Current Deposits liable to be withdrawn more frequently. In fact, the withdrawals during some months of the year and in some of the Branches are very heavy. The public confidence also swings wildly whenever a fly-by-night NBFC closes shop or at times when relations between India and Pakistan worsen such as during the times of recent Kargil war, leading to substantial withdrawals especially from branches where proportion of non-Muslim depositors is higher.

The Management itself feels that lower productivity of the employees, higher Cost of deposit mobilisation, Government's changing financial policies, failure of other NBFCs, corruption of the Govt. officials, are the main problems facing their fund in that order. Little do they realise that their limited objectives, lack of professional management, ineffective accounting and internal monitoring systems, and compromise with interest-free financial principle are also their main problems.

The stated objective of the Management is "to save lowest classes of people especially Muslims from the clutches of 60% interest charged by Mahajans and money lenders, and also to provide them some education and health care facilities"[24]. According to Mr. I.M. Zaki General Manger of MFN, 75% of U.P Muslims belong to lower and backward classes, 15% belong to the middle class. Only about 10% Muslims are rich enough to have savings in Banks from which they may be earning 5% to 10% interest. Unless 75% lower class Muslims who are living in perpetual debt, mainly small farmers and workers are saved from the clutches of Mahajans and moneylenders they will end up paying 60% interest and also loose their jewelry. Their economic condition will go on worsening.

Thus what the MFN along with its Branches (Annex 3.1) besides other Muslim Funds mainly in North India, and Islamic Welfare Societies and Bait-ul-Maals in South India, are doing is saving some of the backward Muslims from exploitative interest payments and safeguarding their jewelry. Other economic benefits if any and welfare activities are only incidental. However MFN has so much of liquidity, ample reserves and fixed assets, experienced staff, diligent management, and well spread infrastructure of offices, that with some statutory and professional support it has the potential to serve millions of more credit thirsty poor people and become a leading Micro-Credit Institution in India.

3.3 Toor Bait-ul-Maal Hyderabad 1966-1998

Toor Bait-ul-Maal Hyderabad (TBH) established in 1966 at Hyderabad is a unique welfare oriented IFS of India. It is performing various social and economic functions, which cater to the weaker sections of society. It mobilises *Zakah*, sacrificial hides, donations and savings from well to do people of the city and distributes them amongst needy individuals and institutions. Similar Bait-ul-Maals are found in almost every city and town of India. Most of them are located in the *Jamia* Mosques of each city. In bigger cities with different *Jamia* Mosques for different localities there may be a Bait-ul-Maal for each locality. All of these Bait-ul-Maals mobilise and distribute *Zakah, Sadqah* and donations. Many of them also mobilise savings and

24. See Margub Hussain Nasir, Muslim Fund Najibabad "25 years Travelogue" 1997, pp. 8 & 9.

distribute interest-free loans locally. Other famous and long serving Bait-ul-Maals of South India are Bait-ul-Maal of Vanambadi and Bait-ul-Maal Tamilnadu at Chennai. Dr.Sayed Abdul Manaan was the first President and Mr. Mir Vizarat Ali Pasha the secretary of TBH.

3.3.1 Economic Performance

Allama Tyyab Qasmi inaugurated advancement of loans on the pledge of movables with a capital of Rs. 3400 on 15th October 1967. Only members of Toor Bait-ul-Maal are eligible to get interest-free loans. Initially anybody who paid a minimum sum Re.1 to Rs. 10 per month was eligible to become a member. Other members could pay in multiples of Rs. 10 up to Rs. 500 per month. Those who paid Rs 20 per month were eligible to get a loan of only Rs. 1000, those who paid Rs. 40 were eligible to get Rs. 2000 and progressively those who paid Rs. 500 per month were eligible to get a loan of Rs. 25000. All loans are to be repaid in 10 equal installments. Gold and silver articles even cycles, sewing machines, radio, fans, utensils, watches are accepted as security. These articles are valued by Appraiser, accounted in a register and except the gold ornaments, kept in two godowns. Gold ornaments are kept in the lockers of Hyderabad State Bank. A member who does not repay his loan even after one year is issued three notices to repay his dues. If he does not repay, a date is fixed and his pledged articles are auctioned to recover the dues. Thus unlike most of the Muslim Funds of North India which never sell gold ornaments received as security against loans, TBH does not hesitate to recover their dues by selling the pledged articles including gold ornaments. Again unlike Muslim Funds and Welfare societies as well as other interest-free lending institutions TBH does not charge any direct Cost as service charges for the loans disbursed. Rather it apportions a fixed percentage of the membership fees received for meeting the operational Costs. Initially 50% of the monthly membership funds were distributed in following proportion.

1.	Reserve Fund	5%
2.	Office	12%
3.	Loans	60%
4.	Economic Fund	7%
5.	Mosques	4%
6.	Deserving people	3%
7.	*Millat* Fund	3%
8.	Marriage Fund	2%
9.	Religious Schools	2%
10.	Funeral expenses of poor	2%

The remaining 50% of monthly fees contributed by members is used as loan to TBH and returned to members after three to 15 years. The above apportion of funds is changed from time to time as per the needs of TBH.

After 1997 on the advise of *Ulemas* monthly membership fees for all members is fixed at Rs. 50. Rs. 25 is kept in the account of members that is returned to them after 3 years. Remaining Rs. 25 is the share of TBH, out of which 20% is used for various *Imdad* Funds[25]; and 50% is used for advancing interest-free loans, which actually become the TBH's own Funds. The maximum amount of interest-free loans is also fixed at Rs. 5000 per member since 1997, although loans of even Rs. 25000 were given earlier. Loans are given to those members who have the required movable assets to pledge as security irrespective of the purpose of loan.

Resource Mobilisation:

TBH is unique in its resource mobilisation endeavors as explained above. It has a complicated and changing system of fund mobilisation. The main source of funds is membership fees. In 1974 there were

25. Note: Imdad Fund refers to charity Fund

7000 members contributing a sum of Rs. 3.31 lakh, which was allocated as per the budget given earlier. Other main sources of collections were *Zakah, Qurbani* skins, general and specific donations and loans. But all of this was collected and distributed as per various purpose based charities. The membership as well as collections have varied from year to year. Generally the membership of TBH has increased from 7528 in 1969 to over 12000 in 1998. The membership collections have increased from Rs. 1.97 lakh in 1969 to Rs. 36.00 lakh in 1998. (Table No. 3.4). Loan Funds have generally formed over 50% of the total collections. Collections of purpose based Funds have generally formed over 30% of the total. During last 30 years total collections of TBH has increased from Rs. 4.50 lakh in 1969 to Rs. 207.47 lakh.

Bait-ul-Maal Fund after remaining constant at Rs. 9.14 lakh over long period between 1984 to 1997 has increased to Rs. 26.96 lakh in 1997-98 on account of sale of its fixed assets. However its share in the total collections has declined because TBH Management is more interested in helping the downtrodden people rather than in building its own Fund and Assets. That's why even General Reserve has been kept constant at Rs. 0.26 lakh since 1989. General Donations have disappeared after 1981 and even Specific Donations have not increased substantially since 1989, which may be because efforts have not been made in this direction by TBH.

Initially TBH was also borrowing interest-free loans e.g., till 1994 philanthropic people had advanced Rs. 11.99 lakh out of which Rs. 10.93 lakh was refunded. In order to mobilise Funds TBH was employing as many as 149 fund collectors called *Amils* out of which 41 were voluntary collectors. The number of *Amils* has gradually declined to 79. They are paid compensatory allowance called *Kafaf.* It forms the Cost of fund mobilisation that has gradually declined from 6.25% initially to 3.6% in 1998 (Column 3 Table No. 3.6).

Resource Utilisation:

Like most of the Islamic Financial Societies, TBH is also primarily advancing interest-free loans against the security of gold and valuables. Some loans and advances to staff are also extended on the basis of personal security. Loans against the security of gold and silver ornaments and other movable articles by TBH are called Security Loans. Security Loans generally formed over 99% of the total loans. Personal loans as well as staff advances against personal guarantees have formed less than 1% (Column 3,4, Table No. 3.5) The Security Loans have gradually increased from Rs. 2.49 lakh in 1969 to over Rs. 130.12 lakh in 1998, an increase by more than 60 times during the 30 years. In most of the years the amount of loans disbursed has been more than the net Loan Funds (Column 8, Table 3.4), e.g. in 1974, 1981,1984, 1989, 1994, and 1998, the amount of loan extended has been more than Funds earmarked for giving loans. Out of over 12000 members of TBH in 1998, only about 8000 members were borrowing interest-free loans. Thus average loan works out to only Rs. 1627 although loans to a maximum of Rs. 5000 are given. The average office Cost of these loans has increased from 5.2% in 1969 to 7.6% in 1998. But the entire Cost can not be attributed to loaning alone as the office of TBH and its 35 employees are also engaged in managing so many other social welfare funds and activities. The Total Cost of providing loans comprising of Fund Mobilisation Cost as well as Office Cost has gone down from 21.43% in 1969 to 13.31% in 1997-98. These Costs are met out of the member's contribution to TBH rather than from borrowers of interest-free loans. Thus in an innovative way interest-free loans are made Cost-free by TBH. The average Cost of loans provided by TBH is much less than many other IFSs (Table No. 3.6).

TBH is maintaining sufficient liquidity of about Rs. 45.00 lakh in the form of cash in hand and cash in Banks. It has also built its own building worth over Rs. 2.00 million, that is a major asset. The loans raised by TBH till 1974 have been mostly repaid. The 50% share of members is also refunded as soon as it is due or demanded by the membeRs. About Rs. 3.00 million were refunded in 1998. In all TBH had refunded to its members a sum of Rs. 123.59 lakh till the end of 1997. Where as the total outstanding loan amount to the members is said to be Rs. 90.00 lakh, Management claims that only about 10% of loans are overdue and that there are no bad debts. All the loans are ultimately recovered by issuing notices and if necessary by auctioning the valuables including gold ornaments. A slogan in *urdu* prominently displayed in the office of TBH reads *Mercy is a voluntary act and a principle is beyond volition. Mercy is not shown by breaking a*

Fund Mobilisation by Toor Bait-ul-Maal - Hyderabad 1969-1998

Table No. 3.4

(In Rs.)

Year	Members	Annual Contribution	Bait-ul-Maal Fund	BMF as % of 11	General Donation	G D As% of 11	Specific Donation	S D as% of 11	Miscellaneous Collections	M C as % of 11	Purpose Based Funds	P B F As % of 11	Net Loaning Funds	NLF as% of 11	General Reserve	Borrowings of Bait-ul-Maal	Total Collections
1	2		3		4		5		6		7		8		9	10	11
1969	7528	196860	153910	34.18%	4465	0.99%	2105	0.46%	4819	1.07%	142138	31.6%	266157**	59.1%	7686	258234	450312
			316.20%		85.87%		2759.80%		1037.10%		51.41%				637.80%		265.90%
1974	7000	331000	709815	56.24%	8299	0.66%	60215	4.77%	54797	4.34%	215218	17.1%	263248	20.9%	56705	1199628	1262146
			27.70%		(-)19.21%		(-) 6.01%				282.20%		843.00%		106.00%		246.00%
1881	7400	480000	906480	20.75%	6705	0.15%	56595	1.29%	-		822619	18.8%	2482550	56.83%	116816	-	4368244
			0.82%				(-) 0.6%				90.9%		72.30%		43.70%		59.90%
1984	6700	1300000	913986	13.08%	-		56214	0.80%	-		1570740	22.5%	4276979	61.23%	167878	-	6985398
							8.50%		Mutual		108.40%		46.70%		(-)8.43%		50.10%
1989	7103	1920000	913985	8.71%	-		60979	0.58%	Benefit		3273938	31.2%	6273568	59.82%	26253	-	10487446
							4.60%		Fund		61.80%		14.90%				43.12%
1993-94	13211	3600000	913686	6.09%	-		63801	0.42%	688178	4.85%	5296347	35.3%	7214061	48.06%	26253	-	15010008
							18.80%		11.08%		18.70%		36.40%				13.70%
1994-95	12125	3780000	913686	5.35%	-		75776	0.44%	764447	4.48%	6285239	36.8%	9838089	57.75%	26253	-	17063267
							(-) 19.2%		(-) 62.4%		6.20%		(-) 0.60%				2.90%
1995-96	12310	3600000	913686	5.20%	-		61275	0.35%	287588	1.64%	6674965	38.0%	9898430	56.37%	26253	-	15760221
							8.80%		405.90%		2.80%		(-) 79.6%				4.90%
1996-97	12600	3840000	913686	4.99%	-		66676	0.04%	1455004	7.90%	6862847	37.2%	10556318	57.29%	26253	-	18425781
							0.75%		1.70%		(-) 2.2%		0.50%				12.60%
1997-98	12310	3600000	2695922*	12.99%	-		67176	0.32%	1479279	7.13%	6712905	32.4%	11244418	54.20%	26253	-	20746674

* Sale receipts of Kab-Gahe Toor for Rs 1782236 are also included.

** Including Balance of Surplus Income of Rs 105322

% in rest of the columns refer to growth percentages.

Loans and Advances of Toor Bait-ul-Maal Hyderabad 1969-1998

Table No. 3.5 **(In Rs.)**

Year	Security Loans	SL as % of 5	Personal Loans	PL as % of 5	Advances	Adv. as % of 5	Total of Loans & Advances	L & A as% of 6	Total of Loans And Fund Disbursals	Refund to Members	Bait-ul-Maal Loan Refund
1	2		3		4		5		6	7	8
1969	249450	95.30%	3600	1.40%	8680	3.30%	261732	62.84%	416495	-	186599
	323.30%		2475.10%		(-) 19.3%		341.90%				
1974	1055875	91.30%	92703	8.00%	7006	0.60%	1156684	77.94%	1483953	160313	1093381
	212.40%		(-) 92.9%		829.50%		191.40%			463%	
1881	3298587	97.80%	6560	0.20%	65955	1.90%	3371101	73.39%	4592800	902620	-
	131.50%		(-) 38.8%		(-) 96.8%		29.10%			(-) 17.0%	
1984	4339125	99.70%	4015	0.10%	8735	0.20%	4351875	65.21%	6673156	740765	-
	21.80%		392.70%				22.40%			182.20%	
1989	5285025	99.20%	39856	0.70%	-	-	5324881	53.91%	9877189	2090888	-
	50.90%		1.00%				51.30%			(-) 23.3%	
1993-94	7980316	99.00%	40616	0.50%	36416	0.40%	8057348	52.21%	15430175	1596264	-
	17.70%		(-) 5.7%				17.40%			(-) 10.3%	
1994-95	9390386	99.20%	38316	0.40%	36416	0.40%	9465118	54.48%	17370889	1432154	-
	(-)1.6%		(-) 13.8%				(-) 1.1%			53.80%	
1995-96	9242975	99.60%	33016	0.40%	-	-	9275991	52.49%	17671691	2202673	-
	9.90%		(-) 8.8%				9.80%			(-) 38.6%	
1996-97	10153776	99.70%	30116	0.40%	-	-	10183892	55.20%	18448043	1486121	-
	28.15%		214.20%				28.70%			100.50%	
1997-98	13012456	99.20%	94616	0.70%	-	-	13107072	59.49%	22029774	2980572	-

Note : Percentages in rest of the Columns represent Annual Growth.

Costs and Cash Reserves of Toor Bait-ul-Maal, Hyderabad. 1969 to 1998.

Table No. 3.6 (In Rs.)

Year	Cost of Fund Mobi lisation	CFM as % of Total Collections	Office Expenses	OE As % of 5	Total Cost	TC as % of Loans	TC as% of Loans & Grants	Fixed Assets	Cash in Hand	Cash in Bank
1	2	3	4		5	6	7	8	9	10
1969	28148	6.25%	27947	49.82%	56095	21.43	13.46%	3277	6841	73141
			115.50%					286.70%	79.60%	10.10%
1974	46623	3.69%	60215	56.36%	106838	9.24	7.20%	12671	12287	80504
			107.10%					2.90%	665.10%	1015.60%
1881	155176	3.55%	124709	44.56%	279885	8.34	6.09%	13045	94009	890088
			48.80%					5190%	74.30%	99.90%
1984	242278	3.47%	185539	43.36%	427817	9.83	6.41%	690138	163851	1779533
			109.40%					203%	9.70%	62.50%
1989	466588	4.45%	388481	45.43%	855069	16.06	8.66%	2091814	179764	2890987
			93.30%					25.40%	50.60%	11.10%
1993-94	826509	5.50%	751000	47.60%	1577509	19.58	10.22%	2622153	270669	3211838
			(-) 10.3%					10.40%	(-) 7.7%	12.20%
1994-95	774958	4.54%	673945	46.51%	1448903	15.31	8.34%	2896114	249939	3604096
			(-) 4.6%					1.20%	20.60%	40.10%
1995-96	760903	4.33%	643310	45.81%	1404213	15.14	7.95%	2932530	301303	5050397
			22.60%						(-) 5.8%	(-) 27.3%
1996-97	738874	4.01%	788890	51.36%	1527764	15	8.28%	2932530	283995	4177364
			26.40%					(-) 22.4%	28.20%	(-) 0.6%
1997-98	747271	3.60%	997145	57.16%	1744416	13.31	7.92%	2275117	364097	4152388%

principle. However in the absence of relevant data about the recovery of loans, overdue loans, loans recovered by auctioning valuables and un-recovered loans, it is not possible to precisely assess the loan recovery performance of TBH.

3.3.2 Social Performance

TBH is performing various welfare oriented social functions by maintaining several purpose-based funds (Table No 3.7). Marriage Fund is the largest one. It is used for performing the marriages of girls from poor families. It has increased from just Rs. 0.12 lakh in 1969 to Rs. 27.82 lakh in 1998 registering an increase by over 230 times. Aid Fund to deserving persons carlier called relief has increased from Rs. 0.30 lakh to Rs. 14.91 lakh during same period. Building Fund has increased to Rs. 17.24 lakh. Millat Fund and Mosque Fund are used to maintain mosques and build income-earning assets like shops and guestrooms for mosques. There is an Education and School Fund to financially help religious schools and their students. Funeral Fund is used to meet the funeral expenses of poor. In 1969 there was even a Palestine Fund for assisting the Palestinian cause. An Economic Fund was started in 1970 with the intention of building a corpus fund to start factories, it remained a dream and the fund was terminated in 1975. A fund for Rest house called *KabGaheToorFund* was also maintained. Office expenses and the commission expenses of *Amils* were met form Office Expenses Fund and *Kafaf* Fund respectively. The total disbursal of various Funds have increased by about 58 times from Rs. 1.55 lakh in 1969 to Rs. 89.23 in 1998. Besides, the interest earnings from Fixed Deposits in Banks are said to be spent on deserving persons and causes as per *Shariah* guidelines. But no separate accounts of the same are shown in the annual reports.

Till 1997 TBH had its membership open to Non-Muslims as well. However there were only 1% non-Muslim members, who were given interest-free loans, majority of whom were women. Social aid from various purpose-based Funds was also given to Hindus and Christians. Since 1997 membership is restricted to only Muslims. About 60% of the total members of TBH are Muslim women, which is highest amongst all the IFSs of India.

3.3.3 Managerial Performance

Mir Vizarat Ali Pasha the founder of TBH continues to be the Secretary. Rest of the office bearers have changed from time to time. The Managing Committee consists of 21 persons, out of which there are 6 officials comprising President, Vice- President, Secretary, Joint Secretary, Treasurer and Legal Advisor; 7 permanent and 8 changing membeRs. The Secretary and Joint Secretary are a part of 48 member staff of TBH. Secretary is paid an honorarium of Rs. 6000 every month, and Joint Secretary is paid Rs. 2200. Cashier gets Rs. 1800 and Office Superintendent Rs. 1700. The Gold Tester is given Rs. 2500 per month. Clerks are paid only Rs. 1000 and peons Rs. 800 per month. Only retired people are employed by TBH who are ready to work on nominal salaries. There is no separate training for them, their experience is considered to be sufficient to cope with their responsibilities. At present besides 48 employees there are 72 fund collectors called *Amil*, they are paid 15% commission on their collection of membership fees. All the employees of TBH are males. The salaries of the TBH staff are lowest amongst most of the IFSs of India.

Advancing of interest-free loans against movable security, marriage of poor girls, financial assistance to Mosques for creating income earning assets, assistance to religious schools, obsequies of dead, assisting victims of natural calamities and accidents are the declared objectives of the TBH. The fact that TBH is serving the people of Hyderabad since 1966 for the last 32 years and has earned an all India reputation for its socio-economic service is evidence enough of its sincere and innovative Management. The Management of TBH is satisfied with the attainment of its objectives as also with the co-operation in its endeavors from Muslim masses, *Ulemas*, Govt.-Officials and non-Muslims. They don't propose to take any steps to entertain or enhance non-Muslim membership. The Management is not for any expansion or diversification of its activities to utilise the on-going economic liberalisation process. They have also not thought of approaching

Purpose Based Funds of Toor Bait-ul-Maal Hyderabad. 1969-1998

Table No. 3.7 **(In Rs.)**

Year	Marriage Fund	Relief Fund	Building Fund	Millat Fund	Kafaf Fund	Office Expense Fund	Economic Fund	Palastine Fund	Funeral Fund	Kab Gahe Toor Fund	TOTAL
1	2	3	4	5	6	7	8	9	10	11	12
1969	11818	30110	20621	994	32037	48460	-	10723	-	-	154763
	335%	(-) 67.1%	84.10%	735%	127.20%	141.90%					
1974	51410	9922	37963	8307	72774	117225	29668	-	-	-	327269
	775.90%	55.30%	450.00%	Mosque Fund	152.30%	66.50%	Education Fund	Aid to Deserving			
1881	450314	15410	208826	80603	183627	195195	35278	35694	16752	-	1221699
	53.20%		253.50%	29.30%	49.60%	59.50%	69.10%	202.00%	111.00%		
1984	689660	-	738281	104214	274741	311272	59641	10799	354473	-	2321281
	(-) 9.6%		127.00%	96.30%	118.40%	114.30%	114.40%	74.30%	309.70%		
1989	624000	-	1682823	20458	600129	667015	127873	188295	145338	312237	4552308
	150.40%	Aid Fund	2.50%	(-) 35.9%	37.70%	12.60%	46.60%	(-) 30.5%	(-) 85.9%	110.90%	
1993-94	1562451	1380352	1724290	130960	826509	751000	187150	130960	20530	658625	7372827
	24.50%	31.40%		(-) 36.2%	(-) 6.3%	(-) 10.3%	(-) 30.8%	(-) 35.1%	(-) 31.5%	0.26%	
1994-95	1944578	1814189	1724290	83521	774958	673945	129575	86325	14065	660325	7905771
	25.10%	(-) 21.2%		109.80%	(-) 1.9%	(-) 4.6%	215.00%	21.50%	7.60%	6.10%	
1995-96	243253	1430855	1724290	175213	7609.3	643310	408175	104875	15130	700297	8395700
	8.70%	(-) 19.9%		(-) 61.3%	(-) 2.9%	22.60%	(-) 45.16%	106.50%	(-) 2.3%		
1996-97	2643253	1145504	1724290	67863	738874	788890	223825	216570	14785	700297	8264151
	5.20%	30.20%		(-) 17.9%	1.10%	26.40%	(-) 16.6%	1.50%	25.70%		
1997-98	2781652	141287	1724290	55580	747271	997145	186700	219890	18590	700297	8922702

Note : All% are Annual Growth percentages.

RBI or Govt. for removal of statutory hurdles in the way of development of IFIs. They have no plans for forming a strong Federation of IFSs of India or establishing financial and trade links with Indian or foreign sister institutions.

3.3.4 Problems and Prospects

TBH is a socio-economic, welfare institution serving the poorer section of Hyderabad Muslims. In the beginning Management had toyed with the idea of mobilising an Economic Fund to start a factory or industry. They had said in their combined Annual Report of 1966 to 1969. "...... if our Muslim brothers consider the purpose of this Fund (Economic Fund) it will be clear to them that in case 2 lakh Muslims become members of the TBH subscribing Rs. 1 /- every month, an amount of Rs. 14000/- will be collected every month in this Fund and in the course of an year the TBH will be able to start a factory or an industry with a capital of Rs. 168000. This is only possible when every earning member of the Muslim community contributes at least Re.1 per month accepting membership of this institution"[26]. Unfortunately the Management of TBH did not persue this objective vigorously for the reasons best known only to themselves; otherwise they could have opened a new chapter in the history of Islamic Financial Societies of India. The failure was perhaps because in a city of more than 10 lakh Muslims TBH could muster a maximum membership of only 13000 in 1994. Since then the membership has declined to 12000 in 1998. Thus only about 1.2% of Hyderabad Muslims are the members of TBH. In a city which was dominated and ruled by Muslims till after independence, and whose Muslim culture is well known all over the country even today, the indifference of Hyderabad Muslim masses towards TBH does not paint a rosy picture for the growth of IFSs in India. The miserable failure and fraud of some of the Islamic Financial Companies based at Hyderabad in 1999 like Al-Falah Investments, popular since 1988, and Al- Farzan Investments since 1992 have seriously affected the potential and prospects of IFIs not only in Hyderabad but also in other Indian cities like Mumbai, Bangalore, Lucknow Delhi and Kozhikode. Hopefully this is a temporary phase and the long services of TBH will induce Hyderabad Muslims to strengthen TBH and enlarge as well as diversify its operations.

There is no doubt that TBH is a unique IFS of India which has been serving the downtrodden Muslims of Hyderabad for over 32 years. It has the necessary experience, infrastructure, and goodwill to serve larger number of people in the coming years.

3.4 Bait-ul-Maal Tamilnadu Chennai 1968-1999

Many *Jamia* Mosques in urban and semi urban India have either a registered or unregistered Charitable Society. There are over 18000 towns and cities in India and 580781 villages[27]. Depending on the concentration of Muslims each village and town has several mosques. Each of the bigger cities of India like Delhi, Calcutta, Mumbai, Bangalore, Hyderabad, Chennai etc have hundreds of Mosques. Each village has a central Mosque called *Jamia Masjid*. A town or city may have several *Jamia* Mosques one for each municipal ward or area, depending on the size of the city. For instance Chennai the capital city of Tamilnadu has a population of 38.41 lakh[28]. For about 10% Muslims in Chennai there are over a 100 mosques and over a dozen *Jamia* Mosques. Many of these *Jamia* Mosques are running Charitable Societies. They are collecting membership fee, *Zakah* and donations and providing *Qard-e-Hassan* interest-free loans, education and medical facilities besides *Zakah* and monetary relief to the most distressed. They are also renting out big cooking vessels, crockery, *shamianas*, tables and chairs etc. for meeting the operational Costs of Society and mosque. Majority of the mosques in India are running a *Madrasa* i.e school for religious education. Many mosques especially in cities are also running tailoring, technical or even computer institutes. Most of the charitable societies started by mosques are called Bait-ul- Maals in India.

26. See *Toor Bait-ul-maal*, 4th Annual Audit Report of 1969, Hyderabad -2 , last page.
27. See *Manorama Year Book*, 1999, Manorama Publications, Kottayam -686001, Kerala. pp.458
28. See *Manorama Year Book*, 1999, Manorama Publications, Kottayam -686001, Kerala. pp.664

The Walajah Mosque on *Quide-Millath* road in Chennai has been running a Charitable Society registered as Bait-ul-Maal Tamilnadu Chennai (BTC) since 1968. The details of its activities in earlier years are not known because of unavailability of records and relevant data. The first annual report of the study was published for the year 1977-78. Even after 3 visits and repeated efforts, the data as per relevant Questionnaires was not provided. However four well-documented Annual Reports for the years 1995-96 to 1998-99 have been made available, which provide a fair picture of the Society's activities. The four tables from Table No. 3.8 to No. 3.11 are based on data from these Reports.

3.4.1 Economic Performance

Bait-ul-Maal Tamilnadu Chennai is the leading Charitable Society of Tamilnadu, being managed by the Muslims of Walajah Mosque Chennai. It is raising Funds through various types of membership subscriptions, contributions, in the form of *Zakah*, *Qurbani* skins, local and foreign donations etc. Members pay a monthly subscription of Rs. 5 to Rs. 100. There are also life members and Patron members who pay Rs. 1000 and Rs. 5000 respectively. There are also some Funds like Permanent Relief Fund and Business Rehabilitation Fund etc. for which donations are collected on regular basis. Other receipts include sale of loan forms, each form is charged Rs. 5 , advertisement tariff, sale of old assets, rental advance, dividend etc. Other receipts also include interest received from Fixed Deposits, which is spent as relief assistance on non- Muslims, e.g. Rs. 8494 were received as interest in 1995-96, and Rs. 88305 were received in 1998-99. Loan recoveries have also contributed significantly to the total receipts.

Fund Mobilisation:
The total receipts of BTC have increased from Rs. 21.55 lakh in 1995-96 to Rs. 31.19 lakh in 1998-99 (Table No. 3.8). Loan recoveries have contributed 30% to 40% of total receipts. Foreign Donations are the next highest contributors, providing 12% to 19% except in 1997-98 when it contributed just 5.46%. *Zakah* collections are 12% to 17% of the receipts. Fees subscriptions are contributing 4% to 5% whereas the Internal Donations are contributing 6% to 15%.

Fund Utilisation:
BTC is extending mainly 3 types of loans against the security of gold jewelry or business assets. Loans against the security of gold ornaments are called Jewel Loans. Rs. 1000 to Rs. 5000 are given as Jewel Loans for a period of 10 to 20 months. Initially loans were given against the security of ordinary assets like bicycles, sewing machines, silver and brass vessels but stopped since 1970s. Jewel Redemption loans are given for transferring the loans from the exploiting Moneylenders to BTC, so as to save Muslims from the burden of paying interest and probably loosing their jewelry as well. For helping deserving Muslims to become economically independent Business Rehabilitation Loans of Rs. 10000 to Rs. 40000 for 2 or more years are given against the security of gold and business assets. All these loans are not only interest-free, they are also almost Cost free. Only Rs. 5 per loan application are charged for providing loans. The total Costs of BTC are recovered from member's subscriptions and donations. To the most poor and deserving Muslims and even some non-Muslims BTC provides relief and grants for different purposes out of *Zakah*, Donations, and specific Funds (Table No. 4.1). Total loan payments of BTC are just above 50% of the total disbursals. Jewel Loans have gradually increased from 18.99% in 1965-66 to 34.70% in 1998-99, whereas Jewel Redemption Loans during same period have declined form 18.07% of total disbursals to just 2.23%. Business Rehabilitation Loans have varied from 14% to 18% of the total. (Table No. 3.9)

Amongst all the grants provided, educational grants are highest at 17% to 19%. These are given to deserving students in the form of admission and examination fees, monthly expenses, books, uniform etc. *Mustahqeen* Grants paid mainly out of *Zakah* Fund are next highest, varying from 11% to 14% of total disbursals. Grants are also given for marriage of poor girls. At present Rs. 750 are given to each bride. Marriage grants have varied from 9% to 14% between 1995 and 1998-99. Grants are also given for burial of destitute dead bodies, major operations like cancer, kidney and heart operations, etc. Other grants are given

Receipts of Bait-ul-Mall Tamilnadu Chennai 1995-1999

Table No. 3.8 (In Rs.)

Year	Cash in Hand & Bank		Subcrip tions		Relief Fund		Dona-tions		Zakah Receipts		Qurbani Skins		Foreign Dona-tions		Business Rehabili-tation Fund		Loan Recove-ries		Other Receipts		Total Receipts
1	2		3		4		5		6		7		8		9		10		11		12
1995-96	263335	12.2%	119607	5.6%	5570	0.3%	140146	6.5%	266482	12.4%	45665	2.1%	275082	12.8%	80085	3.7%	866247	40.2%	92361	4.3%	2154580
1996-97	165143	5.9%	136461	4.9%	2310	0.1%	416428	15.0%	498257	18.0%	49984	1.8%	538817	19.4%	50000	1.8%	867636	34.3%	47907	1.7%	2772944
1997-98	521156	14.9%	14880	4.1%	600000*	17.1%	263406	7.5%	613772	17.5%	57722	1.7%	197799	5.6%	39915	1.1%	918938	26.2%	116267	3.2%	3506065
1998-99	788597	25.3%	135971	4.4%	NA		240607	7.7%	411270	13.2%	70686	2.3%	456972	14.7%	NA		874782	28.1%	140118	4.5%	3119002

Note : 1. All percentages refer to % of Total Receipts.

* This amount is realised by selling Saving Certificates

Table No.3.9

Loan and Grant Disbursal of Bait-ul-Maal Tamilnadu, Chennai 1995 - 99

(In s.)

Year	Jewel Loans		Jewel Redemption		Business Loans		Total of Loans		Marriage Grants		Mustahqeen Grants		Educational Grants		Medical Grants		Burial of Destitutes		Other Grants	Total Grants	Total Loans & Grants	% of Receipts
1	2		3		4		5		6		7		8		9		10		11	12	13	
1995-96	315483	19.0%	300134	18.1%	266610	16.1%	882227	53.1%	236250	14.2%	192174	11.6%	290018	17.5%	49470	3.0%	8619	0.5%	2100	778632	1660859	77.1%
1996-97	338410	23.7%	124500	8.7%	252270	17.7%	715180	50.1%	206761	14.5%	213882	15.0%	273570	19.1%	1000	0.1%	5705	0.4%	3950	713869	1429049	51.5%
1997-98	634050	33.4%	42409	2.2%	347510	18.3%	1023969	53.9%	183344	9.7%	253345	13.3%	351526	18.5%	21000	1.1%	9961	0.5%	57268	876444	1900413	54.2%
1998-99	665470	34.4%	-		281510	14.7%	946980	49.5%	242299	12.7%	282277	14.7%	382258	20.0%	-		3608	0.2%	57520	967972	1914952	61.4%

Note : 1. All percentages except in Column 13 refer to % of Total Loans and Grants.

Costs, Surplus And Assets of Bait-ul-Maal Tamilnadu Chennai 1995 - 99

Table No. 3.10

(In Rs.)

Year	Staff Cost		Fixed Cost		Tailoring Costs		Operat-ional Costs		Other Costs		Total Cost	Net Surplus	Cost as % of Receipts	Cost as% of Loans & Grants	Assets
1	2		3		4		5		6		7	8	9	10	11
1995 -96	90208	32.94%	27605	10.07%	22539	8.23%	124885	45.58%	8773	3.20%	274012	103778	12.72	16.5	795355
1996 -97	98960	34.68%	22250	7.80%	27988	9.81%	133886	46.92%	2260	0.79%	285344	729505	10.29	19.97	1910247
1997 -98	99979	32.94%	14138	4.66%	34675	11.42%	139336	45.90%	15425	5.08%	303553	305123	8.66	15.97	1999753
1998 -99	13202	27.25%	27866	6.71%	49409	11.90%	187598	45.17%	37279	8.98%	415354	162030	13.32	21.69	2084174

Note : Percentages in Column 2-6 refer to% of Total Cost.

Loans and Grants Disbursed Since Inception of Bait-ul-Maal Tamilnadu Chennai 1968 – 1999

Table No. 3.11 **(In Rs.)**

Sl No	Nature of Assistance	1968 - 97		1997-98			1998 –99			1968 -99		
		No. of Bene-Ficiaries	Amount	No. of Bene-Ficiaries	Amount	Average	No. of Bene-Ficiaries	Amount	Average	No. of Bene-Ficiaries	Amount	Average
1	2	3	4	5	6	7	8	9	10	11	12	13
1	Jewel Loans	2528	2714326	134	634050	4731	157	665470	4239	2819	4013846	1423.9
2	Business Rehabilitation Loans	95	1101581	35	347510	9929	29	281510	9707	159	1730601	10884
3	Jewel Redemption Loans	323	1459727	2	42409	21205				325	1502136	4622
4	Total Interest free Loans	2946	5275634	171	1023969	5988	186	946980	5091	3303	7246583	2193.9
5	Marriage Grants	26120	1057354	262	183344	699.8	286	242299	847.20	3160	1482997	469.3
6	Educational Grants	24140	1388962	4070	351526	86.37	4007	382258	95.40	32217	2132501	66.19
7	Mustahqeen Grants	26603	1371615	513	253345	493.9	3095	282277	91.20	30211	1954840	64.71
8	Burial of Destitutes	1512	137161	14	9961	711.5	5	3608	721.60	1531	150730	98.45
9	Medical & other Grants	N A	1250164	N A	78268		N A	57520		N A	1385952	
10	Total of Grants	54867	5205256	5359	876444	163.6	7393	967462	130.9	67619	7107020	100.21
11	Total of Loans and Grants	57813	10480890	5530	1900413	343.7	7579	1914942	252.7	70922	14353603	202.39

for purposes like circumcision, merit scholarship to medicos etc. The total disbursals of loans and grants is varying from 77.09% in 1995-96 to 61.40% in 1998-99 because BTC has to have substantial cash in hand as further timely receipts are uncertain.

Table No. 3.11 provides loan and grant disbursal along with beneficiaries' data. Since inception 3303 persons were given interest-free loans to the tune of Rs. 72.47 lakh over a period of 31 years from 1968-69 to 1998-99. During same period 67619 deserving persons were given various types of grants to the tune of Rs. 71.07 lakh. Average interest-free loans per person works out to Rs. 2193.94, where as average grants per person work out to only Rs. 100.21. But these averages do not give a true picture of the aid given by BT today. Therefore let us look at the recent annual averages in column 7 and 10 and 13 of Table No.3.11 Whereas average Jewel Loan for the entire 31 years is only Rs. 1423.85, the same is Rs. 4731.17 for 1997-98 and Rs. 4238.66 for the year 1998- 99. However the average Business Rehabilitation Loan for the entire period 1968-1999 is slightly higher at Rs. 10884.25 as compared with Rs. 9928.86 in 1997-98 and Rs. 9707.24 in 1998-99. In case of Jewel Redemption Loans the average loan amount was too high at Rs. 21204.50 in 1997-1998 in comparison with the average of only Rs. 4621.96 for the entire period. Similarly the average of all the 3 interest-free loans was higher at Rs. 5988.12 in 1997-98 and Rs. 5091.29 in 1998-99, whereas much lower for the entire 31 year period from 1968 to 1999 at Rs. 2193.93 .

The averages for last two years in case of different types of grants are higher than the averages for the entire 31-year period. It means in the initial period much smaller amounts were disbursed in aid of poor and deserving in comparison with the later years. This was possibly because of lower value of money and higher collection of charitable funds during later years of BTC than during earlier year BTC has been also distributing saris, shirts and *lungies* to the poor during *Ramzan*. For instance 2450 saris, 420 shirts and 600 *lungies* were distributed during 1996-97 alone[29]. Tailoring classes are being run for widows, divorcees and poor women. To the deserving women after the course, sewing machines are also being gifted. A permanent Relief Fund is being maintained to help the victims of natural and man made catastrophes. BTC is, also conducting *Tafseer* and *Hadees* sessions thrice every week, especially for youths.

Costs and Assets:

The Costs of BTC are classified in to Staff Costs, Fixed Costs, Tailoring Section Costs, Operational Costs and Other Costs. Staff Costs include salaries, staff bonus, PF payments etc. Between 1995-96 and 1998-99 although Staff Costs have increased from Rs. 0.96 lakh to Rs. 1.13 lakh, in terms of percentage of total Costs they have declined from 32.92% to 27.25% which means the staff Costs have not kept pace with other Costs. Operational Costs refer to the administrative Costs of BTC. They are the highest at over 45% of total Costs. Fixed Costs are less than 10%. The Costs of running Tailoring classes are slightly over 10%. Miscellaneous Costs called Other Costs have increased from 3.20% to 8.98%. All these Costs are met out of donations or fees subscriptions, rather than being recovered from beneficiaries of loans. Total Costs, as% of total receipts has been about 12% whereas Total Cost as percentage of loans and grants has increased from 16.50% in 1995-96 to 21.69% in 1998-99 which is quite high mainly because of higher Cost of mobilising the Funds. The net surplus of BTC is not much, but it has surplus of income during all the four years for which data is available. BTC has over the years built impressive cash assets, which have increased from Rs. 7.95 lakh in 1995-96 to Rs. 20.84 lakh in 1998-99. Most of the assets of BTC are in the form of cash certificates and endowments. These certificates are encashed in the years when donations are inadequate, as in the year 1997-98 (Table No.3.10). BTC is still in search and need of permanent income earning assets.

3.4.2 Social Performance

Social recognition and significance of BTC is much more dominating in the society than its economic

29. See Bait-ul-Maal Tamilnadu – Annual Report 1996-97, Walajah Mosque Compound, 314, Qaide Millath Road Chennai – 5. pp. 4.

performance. Although BTC's interest-free loans constitute over 50% of its disbursals, the beneficiaries of interest-free loans number only 3303, where as the beneficiaries of grants for removal of social misery, number 67619. This is why BTC is recognized more as a social organisation. It's a socially popular institution as for as Chennai is concerned. The social welfare activities like burial of dead bodies of destitute and uncared people, distribution of clothes, books and scholarships, running tailoring classes, providing interest-free loans etc. have endeared BTC to the people. Although all the 791 subscribers and donors of BTC are Muslims, 10% of them being women, many deserving non-Muslims are also given social and financial aid e.g. about 200 non- Muslims were given text books in 1998-99 according to the relevant Annual Report. Over all amongst the beneficiaries 40% are women. There is in no doubt the BTC is more a local level social welfare and philanthropic institution than an economic or commercial enterprise.

3.4.3 Managerial Performance

BTC is managed by an Executive Committee comprising of a President, 4 Vice-Presidents one General Secretary, two Joint Secretaries, one Treasurer, one Legal Advisor and 11 Executive committee membeRs. The office of BTC has 6 members of staff, 3 of who are retired Govt. servants. Office Superintendent is paid about Rs. 4000 monthly. Cashier is paid Rs. 3000 3 Clerks are paid Rs. 2500 each and an attender is paid Rs. 1250 per month. These payments are almost similar to other IFSs of India. Three of these office staff are women which is rather rare in Islamic Welfare Societies and Muslim Funds. Except the on-going theft case of some jewellery, the office is well managed. The most important achievement of BTC is that they are providing not only interest-free but Cost free loans to the poor as well as deserving businessmen.

The chief objectives of BTC are to help the needy and poor and to propagate Islamic knowledge and values. The attainment of objectives according to the Management is being conditioned by the availability of funds. As the BTC does not own any property it has to perennially depend on public largeness. As for the co-operation of public is concerned the Management is satisfied. *Ulemas* are not concerned with BTC, nor the Govt. and RBI officials or non-Muslims, hence the question of their co-operation does not arise, according to the president of BTC.

BTC Management is appealing to its donors to help BTC acquire some property so as to arrange a permanent source of income. But so far they have not realised the dream. Though they are keeping substantial liquidity of over Rs. 20 lakh in cash certificates, which can be perhaps better utilised for property acquisition. Like other IFIs Reserve Funds are kept in different Banks. They have no plans to diversify or expand the operations of BTC. However they desire to start imparting technical and computer education and open an Islamic library.

3.4.4 Problems and Prospects

Not being able to cater to the needs of all the poor and deserving people due to apathy of Muslim masses according to Management of BTC is their main problem. Not being able to have own property of BTC is another problem. However the main problem of BTC and hundreds of similar institutions is, they are unwilling to convert or diversify into full-fledged IFSs or IIFCs. Nor do they desire commercialisation of their operations. Perhaps because these institutions are promoted and headed by amateur social workers rather than professionally competent businessmen, they are content with the performance of their social objectives. Whatever economic functions their social institutions are performing are only incidental. It is difficult to call such institutions IFIs in their present state. However Muslims need more of such institutions also. Hence the Bait-ul-Maals will flourish since they are performing necessary socio-economic functions without any or minimum Cost to the beneficiaries. There in lies their potential.

3.5 Islamic Welfare Society Bhatkal 1983-1999

Islamic welfare society of Bhatkal (IWSB) was established in 1983. It was promoted mainly by the *Jamat-e-Islami Hind* group, and registered as a Charitable Society. Bhatkal is a taluka head quarter situated in the West Coast district of *Uttar Kannada* in Karnartaka. Its total population is about 50000, 70% of who are *Navayath* Muslims. *Navayaths* claim themselves to be the descendents of Arab traders, who use to frequent Indian coast on trade missions[30]. Most of the Muslims are well to do businessmen; many of them are serving in Gulf.

The main function of IWSB is to mobilise interest-free Deposits and extend loans without interest, against the security of gold ornaments. The Society is also collecting *Zakah* and *Sadqas* and distributing the same amongst deserving people. Donations are also being collected to meet the operational Costs of the Society. Since inception in 1983 the Society has disbursed interest-free loans worth Rs. 199 million to 52087 persons till 1999 at an average of Rs. 3820.53.

3.5.1 Economic Performance

IWSB operates 3 distinct schemes for Deposit mobilisation. *Rozana Bachat* scheme or Daily Deposit collection is the scheme for mobilising small savings on day-to-day basis. The depositors can withdraw their savings only after one year. The Society has appointed 3 *Bachat* collectors who are paid a nominal salary and 2% commission. Initially *Rozana Bachat* scheme is said to have contributed larger share of the total Deposits. However subsequently since 1992 *Jari Bachat* i.e. Current account has been contributing more to the total Deposit mobilisation efforts, perhaps because the depositors can withdraw their savings any time. After 1992 generally *Jari Bachat* has accounted for over 60% and *Rozana Bachat* has contributed less than 40% of total Deposits. There is also a third type of Deposit scheme called *Muddati Sarmaya* i.e. Fixed Deposits. However fixed Deposits have remained fixed and negligible at 0.01% of the total Deposits. It is obvious that without any returns or profit earning opportunities even Muslim depositors do not desire to commit their savings for longer and fixed duration. Total Deposits of IWSB have registered impressive growth from Rs. 0.13 million in 1983-84 to Rs. 23.01 million in 1998-99 (Table No. 3.12). However the peak Deposit mobilisation of Rs. 24.50 million was reached in 1996- 97, since when there is decline in total Deposits by Rs. 1.5 million till 1998-99. It means that without the other banking facilities like those of cheque-books and money transfer as well as the opportunity to earn profit, there is a limit to the growth of interest-free Deposits even in a *shariah* conscious Muslim society like Bhatkal.

Interest-free Loans:

The chief function of IWSB is to give interest-free loans. A maximum of only Rs. 5000/- is advanced against the security of gold. The loan amount is about 70% of the value of gold. Most of the loans given are for redemption of Bank loans, small business needs, personal needs such as medical expenses, acquisition of visa, house repair, domestic consumption etc, rather than for investment in business. Loans are given for a period of 6 months. But they can be repaid within 10 months. If loans are not repaid even after issuing two notices, Society reserves the right to auction jewelry to recover its dues. Generally all loans are recovered before auction date. No jewelry has been auctioned so far. Only about 20% of loans are outstanding for more than one year. Ultimately all loans are recovered and according to the Management there are no bad debts. The Society has also lent secured loans of Rs. 2.0 lakh to a religious college, Rs. 2.0 lakh to High School and Rs. 1.0 lakh to a social organisation. Some personal loans to its staff have also been sanctioned. The Operational Cost of loans was initially met by the society mainly through donations and stationary charges ranging from Rs. 3 to Rs. 8 per loan form. Subsequently since 1987-88 Service Charges of Rs. 50 are also being imposed on loans above Rs. 1000. This rate has been increased to Rs. 75 since 1996. For loans of Rs. 1000 or less no service Charges were imposed till 1996, subsequently Rs. 5 is being collected. However

30. Bahaudin (1982)

Fund Mobilisation and Deployment of Islamic Welfare Society, Bhatkal, 1983 to 1999.

Table No. 3.12 **(In Rs.)**

Year	Jari Bachat	JB as % of 5	Daily Bachat	DB as % of 5	Muddati Sarmaya	MS as % of 5	Total Deposit	Total Loans	TL as% of 5	Outstan-ding Loans	OL as % of 6	No of Loans	Avg. Loan
1	2		3		4		5	6	7	8		9	10
1983-84	NA		NA		NA		132185	128500	97.21%	93935	73%	65	1977
							25.90%	3.49%					
1984-85	NA		NA		NA		475738	578195	121.54%	233260	40%	285	2029
							29.00%	212%					
1985-86	NA		NA		NA		1858925	1804350	97.06%	585950	32%	761	2371
							9.80%	25%					
1986-87	NA		NA		NA		2041366	2262525	110.83%	221210	10%	1164	1944
							24.30%	33%					
1987-88	NA		NA		NA		2536453	3015600	118.89%	507930	17%	1500	2010
							50.60%	52%					
1988-89	NA		NA		NA		3820486	4600000	120.40%	798620	17%	2056	2237
							42.30%	34%					
1989-90	NA		NA		NA		5437496	6181450	113.68%	1000377	16%	2534	2439
							46.00%	28%					
1990-91	NA		NA		NA		7935113	7914250	99.74%	1001343	14%	3155	2508
							53.30%	51%					
1991-92	NA		NA		NA		12168236	11995500	98.58%	2398350	19%	4225	2839
							31.90%	38%					
1992-93	10654556	66%	5374552	33%	16505	0.1%	16048068	16570975	103.26%	NA		4485	3695
	9.90%		20.40%				13.30%	(-)21%					
1993-94	10719429	64%	6012363	36%	16505	0.1%	16631793	17941100	107.87%	2423325	15%	4727	3795
	(-)0.6%		(-)10.4%				(-)35%	8%					
1994-95	11710976	66%	6471220	35%	16505	0.1%	18182196	20866335	114.76%	NA		4403	4739
	2.20%		30.70%				106%	(-)2.7%					
1995-96	11972953	64%	8457310	43%	16505	0.1%	19446768	20307560	104.43%	NA		4220	4812
	26.80%		9.90%				25%	(-)2.7%					
1996-97	15186992	61%	9296135	37%	16505	0.1%	24499632	19786250	80.76%	NA		4472	4424
	23.10%		(-)19.6%				(-)2%	7.90%					
199798	18687882	77%	7476168	31%	16505	0.1%	24164050	21346450	88.34%	NA		4247	5026
	(-)25%		18.40%				(-)5%	(-)6.3%					
1998-99	14095545	61%	8852926	38%	16505	0.1%	22964978	20021650	87.18%	NA		5074	3946

Note: Other Column% refer to growth percentage

Service Charge collections have formed 20% to 50% of total Cost at the most. Hence IWSB has been raising donations to meet bulk of Operational Cost. In the early years Operational Cost was less than the donations received, for later years donations have generally formed 40% to 50% of the total Operational Cost (Table No 3.13). IWSB has been also endeavoring to earn some income by renting out chairs and tables for marriages and other functions to meet its Costs. However the Income earned annually is only around Rs. 10000 or less. As a result for some years. Operational Costs are more than total Income. The deficit in Income is generally met from temporary loans. IWSB has not been able to maintain substantial reserves. At the end of 1998 it had only Rs. 5729.24 in General Fund and Rs. 2.88 lakh in Building Fund. The total Fixed Assets of IWSB were valued at Rs. 11.60 lakh at the end of Dec. 1998. It consisted of a plot of land and building worth Rs. 5.34 lakh, that was received by way of donation and Islamic Complex under construction valued at Rs. 3.18 lakh. Rest of the Fixed assets are office furniture and fittings.

Total interest-free loans advanced by IWSB have registered impressive increase from just Rs. 1.28 lakh in 1983-84 to over Rs. 200.00 lakh in 1998-99. In a town of only about 30 thousand Muslims this is an impressive performance indeed. However if we read in between the figures it will be clear that after 1991-92 there is lop-sided growth in loans disbursed, coupled with some decline in Deposits. Meaning thereby that saturation is being reached in deposit mobilisation as well as loan disbursements. This may be because our society and economy needs interest-free means of earning rightful income more than the facility of interest-free loans. IWSB and similar societies will have to diversify in to Islamic Investments on profit and loss sharing basis and provide income-earning opportunities to their depositors if they desire to attract substantial Deposits, and serve Islamic finance as well as their own growth.

3.5.2 Social Performance

IWSB has created a good social impact. It has provided on alternative and cheap source of small finance to people. Loans are sanctioned within one hour to one day at the most. The doors of IWSB are open to all irrespective of caste and creed. Though non-Muslims form less than 5% of the deposit holders, about 10% of them are borroweRs. 70% of the deposit holders of *Rozana Bachat* Scheme are Muslim women. However women form only 30% of *Jari Bachat* Scheme. 70% of Muslim men hold the *Jari Bachat* Scheme. Amongst borrowers, women form 60%, where as only 40% of the borrowers are men. This is in keeping with the larger share of women in most of the other IFSs distributing interest-free loans.

3.5.3 Managerial Performance

An Executive Committee consisting of 5 officials and 6 members manages IWSB. The General Body consists of Founder Members and ordinary membeRs. Founder Members are also life membeRs. Every member has to pay monthly membership fees of Rs. 5. There are only 32 members of the General Body so far. The office bearers of the IWSB consisting of President, Vice-President, Secretary, Assistant Secretary, Treasurer, and two members of the Executive Committee, in all 7 members are elected from amongst the Founder Members and 4 more members of Executive Committee are elected from amongst ordinary members of the General Body.

Janab Ruknuddin Mohammed Jaffery was the first President. Janab Shoukat Mohsin Mohtesham was the founder Secretary. Mr. Sayyed Husain Barmavar and Mr. Shamsuddin Akrami founder members, were the chief promoters of IWSB. The objectives of IWSB are[31]:

1. To inculcate thrift habit among the citizens.
2. To mobilise savings of the citizens.
3. To work for social, moral and economic up-liftment of the citizen.

31. See *Breaking Chains*, Souvenir, Islamic Welfare Society Bhatkal 1986, pp. 17.

Costs and Income of Islamic Welfare Society, Bhatkal, 1983 to 1999

Table No. 3.13 (In Rs.)

Year	Total Costs	TC as % of Loans	Service Charges	SC as% of Total Costs	Stationary Charges	Member-ship Fees	Furniture Hire Incomes	Dona-tions	Total Income *	T I as % of Costs
1	2	3	4	5	6	7	8	9	10	11
1983-84	4399	3.42%	NA		422	815	-	4812	5234	118.98%
						22.70%				
1984-85	23155	4.00%	NA		2410	1000	-	61933	64343	277.87%
						(-)52%				
1985-86	39120	2.17%	NA		1106	480	-	43096	54202	138.55%
						22.30%				
1986-87	87542	3.87%	NA		9458	1555	2353	65985	77796	88.87%
						22.90%				
1987-88	101129	3.35%	29622	29.29%	7092	2020	8551	51498	96763	95.68%
						(-)20.8%				
1988-89	134896	2.93%	43400	32.17%	8546	1600	11112	72810	135868	100.72%
						(-)17.2%				
1989-90	166157	2.69%	64350	38.73%	10957	1325	13301	70119	158727	95.53%
						27.20%				
1990-91	245995	3.11%	99050	40.26%	11517	1685	11232	167935	299724	121.84%
						72%				
1991-92	301949	2.52%	137080	40.40%	14619	480	16697	157833	326229	108.04%
						37.50%				
1992-93	429180	2.39%	170560	39.74%	4818	660	4748	191122	415388	96.79%
						24.30%				
1993-94	351155	2.17%	176560	50.28%	12100	820	8233	159033	355926	101.36%
						26.80%				
1994-95	492224	2.36%	199960	40.62%	14142	1040	3040	250396	527924	107.25%
						67.30%				
1995-96	593335	2.92%	215752	36.36%	17612	174	11070	253840	545700	91.97%
						10.30%				
1996-97	672636	3.40%	207350	30.83%	16886	1920	2126	326046	672636	100.00%
						(-)9.3%				
199798	703872	3.30%	222050	31.55%	29821	1760		344426	607997	86.38%
						2.30%				
1998-99	777594	3.88%	274275	35.34%	14334	1800	11943	411892	777594	100.00%

Note : * Including Miscellaneous Income.

Other Column% refer to growth percentage.

4. To save the citizens from the curse of interest by accepting and advancing interest-free loans and to assist the poor and needy to acquire their livelihood by interest-free advances.
5. To assist the economically weaker section by providing financial assistance for their vocational education and training.
6. To work for mobilisation and redistribution of charities like *Zakah, Sadqah, Khairat, Fitra* etc.
7. To establish a permanent relief fund for the victims of natural and social calamities etc.
8. To make donations to the institutions engaged in carrying out objectives similar to the objectives of this society.

Not all, but main objectives of the society are being attained satisfactorily according to the Management. The Management is considering expansion and diversification of the activities of Society, but so far they have not been able to prepare a new blue print. Changing financial laws of the land and increasing restrictions on the functioning of NBFCs are considered to be big hurdles. More over inspite of efforts to have own building IWSB is still being run in a rented building. IWSB has not approached Finance Ministry or RBI for finding solutions to the problems of establishing and managing IFIs. Nor have they any plans to establish technical, financial or training links with IFIs functioning abroad. However IWSB is an active member of the Federation of Interest Free Organisations (FIFO). The Management is satisfied with the co-operation being received from Muslim masses, *Ulemas*, Non-Muslims and govt. officials. The activities of IWSB are not advertised.

The Secretary is paid an honorarium of Rs. 5000, he also acts as Manager of the office. Cashier is paid a monthly sum of Rs. 3000. Accountant gets Rs. 2500, Assistant Accountant cum Clerks five in all get Rs. 2000 and each of the 2 Attenders are paid Rs. 1200 monthly. Besides these 10 office employees there are 3 *Rozana Bachat* collectors who are paid Rs. 1500 monthly plus 2% commission on Deposits collected by them. There are only two graduates on the staff.. No training facility is provided for the staff.

Like MFD and MFN, IWSB has also brought out a Souvenir in English and Urdu called *Breaking Chains*[32]. It contains many articles on *interest,* its harmful effects, the importance of establishing interest-free Society etc. but the 175 page Souvenir contains only three pages on IWSB that too about its objectives aims and aspirations. Nothing except the Society's 1982-86 Income and Expenditure Account is written about the performance of IWSB.

3.5.4 Problems and Prospects

The problems as well as potential of IWSB are not much different from similar Societies operating in India. Foremost problem of IWSB is how to meet the Operational Costs including the Cost of insuring stock of gold ornaments received as security against loans, which was as high as Rs. 0.5 lakh in 1998. Recently with fluctuations in gold prices, Gold Loans themselves have become risky due to periodic fall in gold prices. In their eagerness to provide cheaper interest-free loans the Management is recovering only about 40% of the Cost from borroweRs. Verification of women loan seekers is much more difficult, hence their loans are also risky. Non availability of staff, their frequent changes due to inability of Management to pay higher salaries, their training etc. are another set of problems. Inability of Management to diversify their activities to PLS Investments and profit earning operations has become perennial problem. The limit on Deposit acceptance of NBFCs imposed by RBI's Prudential Norms is a sward hanging on the heads of all the IFSs.

Inspite of above problems IWSB is being managed efficiently and successfully. It has won the confidence of the people of Bhatkal because of the dedication and sincerity of Management The biggest achievement of the Management is its ability to keep the operational Costs to generally less than 4% of the total advances, which majority of the other IFIs of India have failed to achieve. Thus as and when IWSB

32. See *Breaking Chains*, Souvenir, Islamic Welfare Society Bhatkal 1986 pp. 1-170.

diversifies its activities to profit earning operations, it is most likely to taste success. However the immediate attention of IWSB is engaged in diversification to income earning operations such as acquisition of assets including land and building or construction of a Commercial Complex to house its own office and earn rental income.

CHAPTER 4

ISLAMIC CO-OPERATIVE CREDIT SOCIETIES OF INDIA

A comprehensive Report by Reserve Bank of India (RBI) on widespread rural indebtedness in India in 1960s had said "Co-operatives have failed ... Co-operatives must succeed."[33] Co-operatives could have also been successfully used for the establishment of Islamic Banking and Financial Institutions in India. Given the constraints of Indian Banking and financial regulations, Co-operative model has been most amenable for interest-free Islamic finance. Unfortunately because of widespread ignorance, ethnic and lingual differences, and lack of industriousness, Indian Muslims did not adopt the interest-free Co-operative model so successfully developed by The Patni Co-operative Credit Society Ltd., of Surat as long back as in 1938. It took 37 years for Indian Muslims to successfully establish another interest-free Co-operative Society at Mumbai in 1976 viz. Bait-un-Nas'r Urban Co-operative Credit Society Ltd. It has been followed by just one more successful Co-operative society again at Mumbai, namely Bait-ul-Maal Urban Co-operative Credit Society Ltd.

Generally 10 or more persons can come together to contribute their own share capital and start a Co-operative Credit, Consumers or Producers Society. The only problem is, in India every state has its own Co-operative Society Act under which a Co-operative Society can be established only within that state. Multi-State Co-operative Societies can be started only under Multi-State Co-operative Societies Act. of Central Government, which is rather cumbersome and time consuming. So far Indian Muslims have not been able to start any Multi-State Co-operative Credit Society, even though Bait-un-Nas'r has been contemplating it for a long time.

Following Co-operative Credit Societies have been selected for survey and in-depth study.

1 The Patni Co-operative Credit Society Ltd., Surat.
2 Bait-un-Nas'r Urban Co-operative Credit Society Ltd., Mumbai.
3 Bait-ul-Maal Urban Co-operative Credit Society Ltd., Mumbai.
4 Nehru College Staff Co-operative Credit Society Ltd., Hubli.
5 Al-Ansar Co-operative Credit Society Ltd., Hyderabad.

4.1 The Patni Co-operative Credit Society Ltd. Surat, 1938 to 1998

The first IFI in India, perhaps in the modern world was established at Surat in Gujarat before Independence. The Muslim businessmen from Patan settled at Surat had started the Patni Co-operative Credit Society Ltd., as early as in 1938.[34] It was registered by the British authorities of the state in 1942. The Society is functioning successfully even today. Following table provides the evidence of its successful economic performance. (Table No. 4.1)

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33. See karve committee Report, RBI 1962
34. See Nuroddin (1968) pp. 3-4

Economic Performance of Patni Co-operative Credit Society Ltd. Surat, 1939-40 to 1997-98

Table No. 4.1 **(In Rs.)**

YEAR	AUTHORI-SED CAPITAL	DEPOSI-TS	SHARE Capital	NO. OF LOANS	TOTAL LOANS	INVESTM-ENT in EQUITIES	INVESTM-ENT in LOOMS	TOTAL DIVIDEND AFTER TAX	TOTAL COSTS	OUTSTAN-DING LOANS	BAD DEBTS	TOTAL RESERVES
1	2	3	4	5	6	7	8	9	10	11	12	13
1939-40	15000	3254	NA	18	1374	2324	NIL	62	40	0	NIL	610
49-50	115000	83869	36354	NA	27200	54258	NIL	2198	15080	18940	NIL	42143
	666.67%	2477.41%			1879.62%	2234.68%		3445.16%				6808.69%
59-60	115000	102643	76749	NA	45615	162375	NIL	9103	6545*	32260	NIL	92489
	0.00%	22.38%	111.12%		67.70%	199.26%		314.15%	-56.60%	70.33%		119.46%
69-70	300000	11000	138501	236	94900	191825	NIL	12971	20246*	56296	NIL	154600
	160.87%	-89.28%	80.46%		108.05%	18.14%		42.49%	209.34%	74.51%		67.16%
79-80	300000	1961	271602	483	197200	200448	NIL	29373	36560*	156950	NIL	399900
	0.00%	-82.17%	96.10%	104.66%	107.80%	4.50%		126.45%	80.58%	178.79%		158.67%
89-90	715000	NIL	461601	361	215800	944978	390000	113440	52625**	213895	NIL	1315486
	138.33%		69.95%	-25.26%	9.43%	371.43%		286.21%	43.94%	36.28%		228.95%
94-95	900000	NIL	764841	448	381800	1456542	NIL	135307	73126**	322360	NIL	1546551
	25.87%		65.69%	24.10%	76.92%	54.14%		19.28%	38.96%	50.71%		17.56%
97-98	900000	NIL	771465	586	711500	2675772	15000	387981	537656***	682410	NIL	3761800
	0.00%		0.87%	30.80%	86.35%	83.71%		186.74%	635.25%	111.69%		143.24%

* Store running Cost is also included

** provision of Rs. 25000, for tax on dividend.

*** Income-tax Rs. 1.5 L + Rs. 1.85 L spent on souvenir printing are also included.
All % are annual Growth %.

4.1.1 Economic Performance

Deposits:

The Patni Co-operative Credit Society was started in 1938-39 with an Authorised Capital of Rs. 15000/-, which was increased to Rs. 9.00 lakhs in 1994-95. The Society was accepting Deposits initially; they were gradually converted into Share Capital to avoid payment of compulsory interest. The Share Capital was increased from Rs. 36354 in 1949-50 to Rs. 7.71 lakhs in 1997-98. The Society was also running a Consumer's Co-operative store called *Hilal* store till 1983. The value of the store's stock in 1959-60 was worth Rs. 1.89 lakh. The idea was to use the profits earned by the store to meet the Operational Costs of extending interest-free loans by the Society. But when it earned a loss of Rs. 49 in 1982-83 it was closed down. Membership fee of Rs. 3 is collected from each member but by next year it is converted into a Share. An entry fee of Re.1 is also collected, from fresh members.

Loans:

Just 18 persons were given an interest-free loan of Rs. 1374 during the entire year of 1939-40. The average loan was just Rs. 77.33, but in 1940 per day wages of an unskilled worker were only about Rs. 0.25 and salary of a fresh primary school teacher was Rs. 15 per month. In 1997-98, 586 persons were given an average loan of Rs. 1214 totaling Rs. 7.12 lakh.

Investments:

The PCCS extends not only interest-free but totally Cost-free loans. PCCS is the only Islamic Society to have invested substantial part of its Capital in PLS Equities and Handlooms (Table No. 4.1). The handsome income earned from there is used to meet Operational Costs and maintain scores of Charitable and Reserve Funds. The after tax dividend of the Society increased from just Rs. 62 in 1939-40 to Rs. 3.88 lakh in 1997-98. The Investment in Equities has registered an impressive growth from Rs. 2324 in 1939-40 to Rs. 26.76 lakh in 1997-98. The Operational Cost of the Society till 1979-80 also includes the Cost of running Co-operative store. Subsequently it includes the Income Tax payments. Hence the Cost of advancing loans alone cannot be effectively enumerated.

Charity and Reserve Funds:

A special feature of Patni Co-operative Credit Society is its Reserves, which have registered impressive growth from just Rs. 60 in 1939-40 to Rs. 37.62 lakh in 1997-98. The Society has maintained as many as 13 different need based Funds as shown in Table No. 4.2.

4.1.2 Social Performance

The fact that all the profits earned by PCCS are used to provide Cost free loans and relief through various purpose based Funds to Patni people is evidence enough that it is being managed more as a community welfare organisation than a commercial venture. The PCCS has maintained several Funds for the welfare of the people, such as *Imdad* Fund, Grants Fund, Donation Fund, Charity Fund etc. (Table No.4.2) Most of the loans and charities are provided only to the Muslims of Patni community. Although the Society generally helps the Muslims of Patni living in Surat at times of social strife like the horrible anti-Muslim riots of Surat after the demolition of Babri Mosque and the plague havoc of Surat, the PCCS came out fully in support of all the Muslim victims of Surat, revealed the non-Patni auto driver in whose auto I had traveled to Society.

4.1.3 Managerial Performance

The PCCS is managed by a 16 member Board of Directors consisting of a president, Vice-President, Secretary, Jt. Secretary, Treasurer, two Internal Auditors and ten members, who are elected by the General

CHARITY AND RESERVE FUNDS OF PATNI CO-OPERATIVE CREDIT SOCIETY, SURAT. 1939-40 TO 1997-98.

Table No. 4.2 **(In Rs.)**

NAME OF THE RESERVE FUND	1939-40	49-50	59-60	69-70	79-80	89-90	94-95	97-98
GENERAL FUND	148	13528	0	0	0	0	0	0
RESERVE FUND	400	15000	90000	8000	115000	208832	412445	573624
IMDAD FUND	62	1915	989	2100	16900	55460	111090	0
SECURITY FUND	0	5000	25000	27500	65000	92846	153626	2136614
CONTINGENCY FUND	0	3000	10000	7500	29000	53346	107671	131780
BUILDING FUND	0	2000	25000	80000	101000	128846	189626	237814
GRANTS FUND	0	1700	1500	3500	0	3906	24481	10363
EMERGENCY RESERVE FUND	0	0	0	11000	29000	33000	33000	33000
BUILDING DEPN. FUND	0	0	0	15000	42500	62000	64000	51530
GOLDEN JUBILEE FUND	0	0	0	0	80000	644250	407970	528565
DONATION FUND	0	0	0	0	25000	33000	33000	33000
SOCIAL PURPOSE CHARITY FUND	0	0	0	0	0	0	12142	554
MEMBERS WELFARE FUND	0	0	0	0	0	0	7500	24956
TOTAL	610	42143	152489	154600	503400	1315486	1556551	3761800

Body consisting of all the Shareholde Rs. The computerised and efficiently managed office has a staff of just 2 persons. Manager-cum-Accountant is paid is paid Rs. 4500/- p.m. Jr. Clerk-cum-attender is paid Rs. 3500/-. The staff receives some training from Dept. of co-operatives.

The main operational objectives of the Society are to provide interest-free loans to 95% of the Patni people and to spend the Surplus Reserves on education, library, *Madrasas*, hospital and charities.

The Management of PCCS is satisfied with the co-operation being received from Muslim masses, *Ulemas* and Govt. officials. They do not advertise their operations. They do not propose to welcome more non-Muslim Shareholders. The Management believes that IFIs have the potential to be an alternative to the conventional financial institutions. They have no plans for expansion or diversification of activities. They are in favour of forming a strong federation of IFIs.

4.1.4 Problems and Prospects

The Patni Co-operative Credit Society Ltd. is an illustrious example of a small Muslim community of Surat in Gujarat to invent their own way to eschew *haram* interest in an economy and polity that is alien to the concept and un-obliging to the practice of interest-free transactions. Its first limitation is the scope of its operations. It caters only to the members of Patni society rather than Muslims and other Indians in general. Its second limitation is that the Society is although an economic institution it is not a commercial endeavour. On the contrary its functions are more philanthropic. Although the Management of PCCS has amply proved its commercial proficiency by making PLS Investments in Equity and earning substantial Returns. However the Society has been proving its worth since 1938 for other Muslims in India to follow suit and emulate the example. Perhaps if other Muslims also throughout the country had established such Co-operative Societies as much earlier, their economic condition would have been much better today.

4.2 Bait-un-Nas'r Urban Co-operative Credit Society Ltd. Mumbai 1976-1999

Bait-un-Nas'r Urban Co-operative Credit Society Ltd. is one of the older and well known IFIs of India. It was Bait-un-Nas'r Management that experimented with different forms of IFIs in India. Two public Ltd. Investment Companies viz. Falah Investments ltd. and Ittefaq Investments Ltd. were promoted by Bait-un-Nas'r in 1983. Besides other Investment Companies, Partnership firms like Barkat Finance and Investments, Barkat Savings etc. were also established by Bait-un-Nas'r. Bait-un-Nas'r led by its young Director, fresh B. Tech. from IIT Bombay, Mr. Mohd. Hussian Khatkate worked tirelessly to promote Barkat Group of Companies. He also played leading role in formation of the Federation of Interest-Free organisations (FIFO).

Bait-un-Nas'r commenced functioning on Friday 1st October 1976 at Mahim, Mumbai as an Urban Co-operative Credit Society Ltd. with meager funds of Rs. 12000 only. It has now 20 Branches (Annex 4.1), over Rs. 150 lakh of total Funds and over 1.5 lakh members. Anybody who intends to become a Shareholder, depositor, borrower or guarantor has to become a member of Bait-un-Nas'r by paying the membership fees of Rs. 5 and purchasing at least five Shares of Rs. 10 each.

4.2.1 Economic Performance

Various variables which measure the economic performance of Bait-un-Nas'r are given in Table No. 4.3. The membership of Bait-un-Nas'r has increased from just 654 in 1976-77 to 155050 in 1998-99, the number of Branches during same period have increased to 20. The Share Capital of Bait-un-Nas'r has increased from Rs. 26000 in 1976-77 to Rs. 127.62 lakh in 1998-99. However Share Capital forms only about 10% of the total Capital raised by Bait-un-Nas'r. Deposits mobilised by Bait-un-Nas'r have increased from just Rs. 36000 in 1976-77 to Rs. 1241.59 lakh in 1998-99. It gives a per Branch Deposit mobilisation of

Bait – Un - Nas'r Urban Cooperative Credit Society, Mahim, Mumbai, Economic Performance - 1976 – 99

Table No. 4.3

(In Rs. Lakhs)

Year	Members	Branches	Share Capital	% of 6	Total Deposits	% of 6	Total Funds	Total * Loans	% of 6	Total Assets	% of 6
1	2	3	4		5		6	7		8	
1976 -77	654	1	0.26	41.93%	0.36	58.06%	0.62	0.49	79.03%	0.00	0.00
1977 -78	1133	1	0.33	20.75%	1.18	74.21%	1.59	2.08	130.82%	0.04	2.51%
1978 -79	2166	2	0.49	13.10%	3.25	86.90%	3.74	5	133.69%	0.04	1.07%
1979 -80	3250	3	0.70	12.57%	4.87	87.43%	5.57	10.27	184.38%	0.11	1.97%
1980 -81	4750	4	0.99	12.00%	7.26	88.00%	8.25	18.35	222.42%	0.13	1.57%
1981-82	6820	4	1.26	9.71%	11.71	90.28%	12.97	30.62	230.08%	0.13	1.00%
1982-83	9012	5	1.81	9.47%	17.30	90.53%	19.11	41.35	216.38%	0.19	0.99%
1983-84	11237	6	2.65	11.07%	21.29	88.93%	23.34	64.66	270.09%	0.84	3.51%
1984-85	13649	6	3.88	9.73%	36.00	90.28%	39.88	100.99	252.48%	4.92	12.34%
1985-86	16992	6	4.69	9.85%	42.94	90.15%	47.63	129.8	272.52%	4.95	10.39%
1986-87	20356	7	5.84	8.62%	61.91	91.38%	67.75	159.77	235.82%	7.05	10.40%
1987-88	23039	7	7.47	8.59%	71.51	91.41%	86.98	195.54	224.81%	12.96	14.90%
1988-89	26021	8	11.59	8.53%	124.26	91.47%	135.85	297.54	205.77%	14.84	10.92%
1989-90	31359	10	16.67	8.80%	165.82	90.86%	182.49	372.05	203.87%	26.53	14.54%
1990-91	38068	11	22.03	9.40%	212.42	90.60%	234.45	441.81	188.44%	44.25	18.87%
1991-92	47186	12	28.62	9.81%	263.02	90.19%	291.64	580.88	199.18%	54.97	18.85%
1992-93	50282	13	34.29	9.24%	336.97	90.76%	371.26	811.63	218.61%	56.33	15.17%
1993-94	70371	15	46.09	9.25%	452.01	90.75%	498.1	1024.26	205.63%	73.43	14.74%
1994-95	86080	17	74.54	10.05%	667.44	89.95%	741.98	1472.45	198.45%	210.02	28.30%
1995-96	102331	17	107.29	10.61%	901.91	89.37%	1009.2	2073.98	205.51%	239.34	23.71%
1996-97	120510	18	130.35	10.72%	1085.8	89.28%	1216.15	2789.95	229.41%	257.6	21.18%
1997-98	137797	18	129.93	9.83%	1191.84	90.17%	1321.77	3249.5	245.84%	304.05	23.00%
1998-99	155050	20	127.62	9.32%	1241.59	90.68%	1369.21	3648.1	266.44%	345.98	25.27%

* These are Cumulative Total Loan Turnover Figures.

Rs. 62.08 lakh, but per member Deposits of only Rs. 800.77. This partially explains why the size of IFIs of India is generally small. Average savings of Indian Muslims are generally much less because of their economic backwardness.

Inspite of repeated visits and requests over a period of 3 years to Bait-Un-Nas'r they did not provide the required data as per the Survey Questionnaire. Most of the performance data provided by Bait-un-Nas'r is of promotional nature which is not adequate for critical evaluation of its functioning. This has been the bane of most of the IFIs of India. Only cumulative loan turnover figures for the entire period are available. Accordingly total interest-free loans extended by Bait-Un-Nas'r have increased from Rs. 0.49 lakh in 1976-77 to Rs. 3648.10 lakh in 1998-99, which is about two and a half times more than that of the total Capital of Bait-un-Nas'r in 1998-99 (Table No. 4.3). However appropriate Fund mobilisation, Deployment and Cost data for the last five years of Bait-un-Nas'r has been collected , analysed and presented in Table No. 4.4 Section A, B and C.

Section A of Table No. 4.4 gives the composition of total Funds collected by Bait-un-Nas'r during 1995-1999. Spot Deposits Which are collected by the agents of Bait-un-Nas'r on daily, weakly or fortnightly basis form by far the largest chunk of total Deposits. Infact the share of Spot Deposits in total Deposits has increased from 61.62% in 1994-95 to 74.82% in 1998-99. Saving Deposits are the next highest contributors of total Deposits. However with increase in the contribution of Spot Deposits the contribution of all other Deposits especially Saving Deposits has declined from 31.61% in 1994-95 to 19.57% of total Deposits in 1998-99. Fixed or Term Deposits and Recurring Deposits have each contributed just over 2% of total Deposits of Bait-un-Nas'r. Deposits by children called Mini Deposits less than 1% of total Deposits. Share Capital constitutes only about 9-10% of total Funds.

Section B of Table No. 4.4 provides the information about distribution of Loans and Investments between 1994-95 to 1998-99 Bait-un-Nas'r has been extending various type of interest-free loans. Loans against the security of gold ornaments called Gold Loans from generally over 50% of the total Loans. However the Gold Loans over the last five years have been declining from 65.98% of total Loans in 1994-95 to 43.91% in 1998-99. Call money Loans, provided mainly to Bait-un-Nas'r Group of Financial Companies account for over 20% of total Loans. Surety Loans, extended to deposit holders against personal guarantee have declined from 19.95% in 1994-95 to 16.71% in 1998-99. Vehicle Loans given for the purchase of vehicles and Housing Loans for purchase of flats have generally varied from 9% to 6% of total Loans. Instalment Purchase Loans, given for the purchase of consumer durables like Colour T.V., Fridge, Washing Machines etc. on installment basis have formed generally about 1% of total loans. Bait-un-Nas'r has arrangements with firms for selling Vechicles and consumer durables to its borrowers, for which it receives a commission. Vehicle, Installment Purchase and Housing Loans are actually investments of Bait-un-Nas'r because they are fetching income.

Bait-un-Nas'r has been promoting low cost housing since 1983 for its members. So far it has promoted 10 low cost housing projects in Mumbai suburbs providing 700 flats including shops 350. Housing Loans worth Rs.150 lakh have been provided for durations varying between 2 to 5 years to its members. Bait-un-Nas'r has also advanced interest-free loans including *Qard-e-Ḥassan* for providing shelter to 26 Muslim families of Mumbai riot victims.

Bait-un-Nas'r has so far during 24 years of its operations provided interest-free loans of over Rs. 3750 lakh (375 million), to about 25000 members at an average of Rs. 15000 per member. Loans are given to individuals and families for consumption as well as business purposes. Maximum personal loans of Rs. 1.00 lakh are given to individuals or families for a period of one to two years, generally against the security of gold ornaments. For business purposes loans of more than Rs 1.00 lakh are also given for longer period.

Section C of Table No. 4.4 deals with various Costs of Bait-un-Nas'r. Deposit Mobilisation Costs are highest forming 70% to 75% of the total Costs. Higher Deposit Mobilisation Costs are also responsible

Bait - Un - Nas'r Urban Co-operative Credit Society, Mahim, Mumbai.

Table No. 4.4 **Section A: Fund Moblisation - 1994-95 to 1998-99** **(In Rs. Lakh)**

Year	Share Capital	% of 9	Saving Deposits	% of 8	Recurrring Deposits	% of 8	Term Deposits	% of 8	Mini Deposits	% of 8	Spot Deposits	% of 8	Total Deposits	% of 9	Total Funds
1	2		3		4		5		6		7		8		9
1994-95	74.54	10.3%	211.01	31.61%	25.29	3.79%	14.38	2.15%	3.90	0.58%	411.27	61.62%	667.44	89.95%	741.98
1995-96	107.29	10.6%	263.22	29.18%	27.84	3.09%	31.4	3.48%	6.30	0.70%	572.70	63.50%	901.91	89.37%	1009.2
1996-97	130.35	10.7%	288.68	26.59%	27.12	2.50%	20.09	1.85%	7.14	0.66%	742.30	68.36%	1085.80	89.28%	1216.15
1997-98	129.93	9.83%	268.02	22.49%	28.23	2.37%	35.12	2.95%	6.50	0.54%	853.34	71.60%	1191.84	90.17%	1321.77
1998-99	127.62	9.32%	243.00	19.57%	26.00	2.04%	36.00	2.90%	6.00	0.48%	929.00	74.82%	1241.59	90.68%	1369.21

Section B: Distribution of Loans 1994-95 to 1998-99

Year	Gold Loans	% of 8	Suerety Loans	% of 8	Vechicle loans	% of 8	Installment Purchase Loans	% of 8	Housing Loans	% of 8	Call Money Loans	% of 8	Total Loans
1	2		3		4		5		6		7		8
1994-95	251.55	66.0%	76.05	19.95%	37.01	9.71%	7.09	1.86%	13.43	11.39%	66.13	17.34%	381.26
1995-96	354.10	51.49%	106.37	15.47%	45.00	6.54%	8.96	1.30%	41.68	6.06%	131.54	33.93%	687.65
1996-97	427.36	53.69%	87.59	11.00%	57.78	7.60%	8.73	1.10%	43.85	5.51%	170.59	21.43%	795.90
1997-98	399.16	51.78%	105.49	13.68%	55.25	7.18%	7.03	0.91%	49.81	6.46%	154.67	20.06%	770.81
1998-99	310.00	43.91%	118.00	16.71%	48.00	6.80%	7.00	0.99%	66.00	9.35%	157.00	22.24%	706.00

Section C: Distribution of Costs 1994-95 to 1998-99

Year	Mobilisa-ion Costs	% of 5	Loan Servi-cing Costs	% of 5	General Costs	% of 5	Total Costs	Cost as% of Capital	Cost as% of Loans	Reserves	Assets
1	2		3		4		5	6	7	8	9
1994-95	41.00	70.14%	10.73	18.35%	6.72	11.50%	58.45	7.88	15.33	119.01	210.02
1995-96	53.17	71.01%	12.56	16.77%	9.55	12.75%	74.88	7.42	10.89	111.14	239.34
1996-97	74.16	72.07%	20.60	20.02%	7.69	7.47%	102.9	8.46	12.39	114.82	257.60
1997-98	93.14	77.55%	22.26	18.53%	4.70	3.91%	120.10	9.09	15.58	117.93	304.05
1998-99	111.00	75.51%	26.00	17.69%	10.00	6.80%	147.00	10.74	20.82	115.00	345.98

for higher total Costs of Bait-un-Nas'r, as well as most of the other IFSs and ICCSs of India. Because like Spot Deposit of Bait-un-Nas'r that forms over 70% of total Deposits, the total Deposits of other Indian IFIs also consist largely of Spot Deposits, which are collected by scores of Deposit collectors, who have to be paid salaries and commission. Loan Servicing Costs of Bait-un-Nas'r are between 16% to 20% of total Costs. Other General Costs are lowest at 4% to 12% of the total Costs. From 1994-95 to 1998-99 total Cost of Bait-un-Nas'r has increased from Rs. 58.45 lakh to Rs. 147.00 lakh. Between the same period Costs as % of total Funds have gone up from 7.88% to 10.74% and Costs as % of loans have risen from 15.33% to 20.82%. Bait-un-Nas'r Management has always claimed that they have been accurately calculating and recovering only the actual Costs from their borrowers. However no data about Cost recoveries has been provided to establish the claim. More over a 20.82% loaning Cost is too high by any standard. Majority of Indian Commercial Banks including Urban Co-operative Banks are providing loans at much lower Cost of only 13% to 16% interest. Thus interest-free loans of Bait-un-Nas'r are costlier than the loans provided by Commercial Banks of India. This is the main problem of Bait-un-Nas'r and many other IFIs in India. Consistently higher Operational Costs are likely to make Bait-un-Nas'r economically unviable sooner than later, because, Bait-un-Nas'r cannot recover entire Cost as Service Charge from borrowers without driving them away to cheaper avenues. Hence the Management of Bait-un-Nas'r must improve its operational efficiency at the earliest and reduce the Variable as well as Fixed Costs.

Bait-un-Nas'r Management is also silent about the overdue loans and bad debts as if the problem does not exist. Although it is admitted during the interview that settlement of bad debts is a problem. Bait-un-Nas'r also undertakes payments of electricity and telephone bills of its members for a commission. We have already noted that Bait-un-Nas'r is promoting low cost housing projects. However no data at all is provided about the earnings of Bait-un-Nas'r. This lack of transparency on the part of Bait-un-Nas'r and many other IFIs is coming in the way of improving public confidence in IFIs of India.

4.2.2 Social Performance

Bait-Un-Nas'r Urban Co-operative Credit Society, functioning since 1976 in Mumbai, with 20 branches has created good social impact as a leading ICCS in India, at least till 1997 when its Barkat Group of Companies was functioning successfully. But the failure of Barkat Group in 1998-99 together with failure of some of the other IFIs in Delhi and Hyderabad has adversely affected the fortunes of Bait-un-Nas'r since 1998-99. Only time will show as to how it copes with the crises. It is the largest surviving Islamic Co-operative Credit Society so far. It has over 1.5 lakh customers; it has disbursed over Rs. 365 million as interest-free loans. Only about 5% of the members of Bait-un-Nas'r are non-Muslims. About 20% of women are members. Bait-un-Nas'r does not have any plans to increase the membership of non-Muslims. Nor does it advertise its services.

After the Mumbai riots Bait-un-Nas'r took active part in the rehabilitation work. It provided loans as well as shelter to the affected families. However considering the 23 years of its existence in Mumbai which is considered to be the financial capital of India, one expected much better growth of Bait-un-Nas'r and greater socio-economic impact.

4.2.3 Managerial Performance

A Board of Directors consisting of 21 members manages Bait-un-Nas'r. There are 157 permanent staff members consisting of a General Manager, Branch Managers, Middle level officers, Accountants, Clerks and attenders. There are also 150 part-time 'Collectors' who collect the Spot Deposits. The payments of staff like in most of the other ICCSs continues to be on lower side. General Manager is paid Rs. 7000 to 10,000 per month. Branch Managers are paid Rs. 3000 to Rs. 7000. Middle Level Officers are paid Rs. 2500 to Rs. 5000. Accountants and Clerks are paid Rs. 1800 to Rs. 2500, and attenders are paid Rs. 1000 to Rs. 1500. Most of the Managers are graduates. Once in Every 3 month the staff is imparted 4 to 5 hours of orientation and training. Without adequate salaries and professional training how long and how efficiently will the staff of Bait-un-Nas'r and other IFIs work, is an urgent question, which the respective Managements have to pay attention to.

The stated objectives of Bait-un-Nas'r Management are inculcation of saving habits amongst the poor, lower middle, as well as middle class persons of the community and helping them through a system of interest-free credit. Its object also encompasses providing low Cost houses to lower middle-income group of the community. The operations of Bait-un-Nas'r are aimed at creating an interest-free economy, as enshrined in the Holy *Quran* and *Hadith*. The Management is satisfied that the set objectives are being attained. They are also happy about the satisfactory co-operation being received from Muslim masses, *Ulemas*, Govt. officials, and non-Muslims. The Society gets its accounts audited but has not supplied the copies of audited statements or auditor's Reports for scrutiny and reference.

All the offices of the Bait-un-Nas'r have been computerised. The Management thinks positively that IFIs in India have the potential to be an alternative to contemporary interest based financial institutions of India. They are aware that multinationals like ANZ have entered the field of Islamic finance. They are willing to expand and diversify Bait-un-Nas'r operations if permitted. Bait-un-Nas'r has played a leading role in formation of the Federation of IFIs of India together with Muslim Fund Najibabad. However they have not approached RBI or Govt. for removal of hurdles in the way of IFIs of India. Nor have they any plans to establish training, technical or financial collaborations with sister institutions else where in the world. They desire exemption for IFIs from Cash Reserve Ratio and Statutory Liquidity Ratio. They also desire RBI's relaxation of minimum and maximum interest charges of 4% to 15%. Bait-un-Nas'r also wishes the govt. to subsidise the borrowing Cost of economically weaker borrowers of IFIs, like the differential interest rate policy of Commercial Banks for weakest section of the society living below poverty line.

Bait-un-Nas'r was known for long for its honest efforts to promote IFIs in India till the failure of its associates, Barkat Group of Companies. The failure of its associates has put a question mark on the proficiency of Bait-un-Nas'r as well. The higher Operational Costs and lack of transparency on the part of Bait-un-Nas'r have further obscured the true potential of Bait-un-Nas'r.

4.2.4 Problems and Prospects

Bait-un-Nas'r Urban Cooperative Credit Society's problems in many ways are the problems of IFIs of India. Management of Bait-un-Nas'r feels that its main problem is how to control escalating Operational Costs. The rising Cost of lending interest-free loans at 15% to 20% is too high for comfort. The high Cost of lending is a disservice to Islamic finance. It is the main factor responsible for non-popularity, lower growth and small size of IFIs in India. Non-Professionalism, unqualified, un-trained and inefficient staff, lack of innovative Islamic financial products, unnecessary and uneconomic Branches are the other responsible factors for failure of Bait-un-Nas'r and most of the IFIs of India to take off. Bait-un-Nas'r itself feels and rightly so that statutory regulations and lack of permission and support for promoting interest-free financial institutions are also responsible for many of their problems, including their higher operational Costs. For instance Indian IFIs have to find out indirect ways, niche opportunities for promoting interest-free financial operations. They have to depend more on Spot Deposits for mobilisation of funds. The Indian tax laws are also not conducive for interest-free operations; for instance, interest paid to depositors is treated as Costs where as profits are taxed heavily. Permission for starting Branches of Bait-un-Nas'r outside Mumbai is also awaited for a long time.

Lack of transparency in the operations of Bait-un-Nas'r is a big hurdle in the way of its evaluation and growth. As many as six visits were paid during last 3 years to the Head Office of Bait-un-Nas'r at Mahim, Mumbai, apart from postal and telephonic contacts for the performance data as per our Questionnaire. But they said it is not available with the head office, it will take time for collection. If the data regarding different types of Deposits and Loans, Recoveries, Costs, Earnings NPAs, Reserves and Surplus, Losses etc. are not available with Head Office for years, how do they function? What is their internal monitoring system? Do they ever evaluate their own performance? Bait-un-Nas'r and every IFI surveyed by this study were requested for a copy of their own evaluation report if any. None of them including Bait-un-Nas'r had any such thing to offer. Many of them said they did not have either the time or staff for such periodic assessment and evaluation of their performance, coping with day-to-day operations and challenges itself was an arduous task. Whatever little data is reluctantly provided by Bait-un-Nas'r, though mostly only of promotional nature also suffers form inconsistency and incompatibility.

Other problems of Bait-un-Nas'r originate from its association with Barkat Group of Companies to which it has extended 20% to 30% of its loans, which it regards as Call Money (Column 8, Section B of Table No. 4.4). With the failure of Barkat Group in 1998-99, because of over investment in crashing real estate the scarce liquidity of Bait-un-Nas'r is also blocked and its future jeopardised. Good intentions and lofty declarations alone are not enough for the survival and development of IFIs. It is only dexterous professional management with some chopping of the dead wood, such as closure of un-economic Branches and termination of inefficient staff to reduce fixed Costs, proper staff selection and payment policy, better internal monitoring, more transparency in operations etc. that can ensure a safe future for Bait-un-Nas'r and other IFIs.

4.3 Bait-ul-Maal Co-operative Credit Society Ltd. Mumbai 1985-1999

Bait-ul-Maal Co-operative Credit Society Ltd. (BCCS), was established in September1984 at Mumbai by a socio-economic NGO called All India Council of Muslim Economic Up-liftment. (AICMEU). AICMEU was registered in December 1982 as a social service organisation under Indian Companies Act. of 1956 as well as under Mumbai Trust Act. of 1950. AICMEU was the result of endeavours of a group of young Islamic social workers led by Prof. Dr. Rahmatullah. AICMEU aims at popularising the Islamic socio-economic doctrines and work for the well-being and economic upliftment of Indian Muslims. Within a decade AICMEU has spread its area of work to general Education, Technical Education, Vocational Guidance, Employment Bureau, and Health besides Islamic Finance.

BCCS was perhaps inspired by the success of Bait-un-Nas'r Co-Operative Credit Society Ltd. that was functioning in Mumbai since 1976. Unlike Bait-un-Nas'r, BCCS was also performing some of the functions of Merchant Banking, thereby earning and distributing profits to investoRs. The area of operation of BCCS is greater Mumbai. It has three branches, at Kurla, Trombay and Govandi.

4.3.1 Economic Performance

BCCS was started with a subscribed Share Capital of about Rs. 1.0 lakh and Deposits of Rs. 2.09 lakh, in the year 1985. Subscribed share capital was gradually increased to Rs. 14.61 lakh. total Deposits have increased to Rs. 110.46 lakh in 1998-99.

Deposit Mobilisation:

The Deposit mobilisation endeavour of BCCS has been over whelming, forming around 90% of total Funds (Table No. 4.5). There have been as many as seven different types of Deposits raised by BCCS. Initially only Current Saving and Recurring Deposits were raised. None of them carried any return. Saving Deposits formed over 60% of total Funds till 1995. Investment Deposits (I D) were started in 1991 and Recurring Investment Deposits (RID) in the year 1995. Both these Deposits have enabled the members of BCCS to earn a return from the P L S investments. Where as I D have formed around 10% of total, R I D have increased from 18.04% in 1995-96 to 33.95% in 1998-99. It shows that given the opportunity Muslims

Year-wise Fund Mobilisation of Bait-ul-Maal Cooperative Credit Society Ltd. Mumbai 1984-85 to 1998-99

Table No. 4.5 **(In Rs.)**

Year	Authorised Share Capital (Rs lakh)	Subscribed Share Capital	Current Deposits	Saving Deposits	Recurring Deposits	Investment Deposits	Recurring Investment Deposits	Fixed Deposits	Spot Deposits	Total Deposits	Total Funds
1	2	3	4	5	6	7	8	9	10	11	12
30.6.1985	5.00	91560								208927	300487
		30.47%								69.53%	61.47%
1986	5.00	148530								336656	485186
		41.12%								58.88%	0.47%
1987	5.00	195530								291911	487441
		40.11%								59.89%	102.33%
1988	5.00	204760								781498	986258
		20.76%								79.24%	-6.80%
1989	5.00	270050								649172	919222
		41.60%								58.40%	79.87%
1990	5.00	307450	493403	806805	45769					1345977	1653427
		18.59%	29.84%	48.79%	2.99%					81.40%	69.39%
1991	5.00	386130	96219	2040690	29255	248400				2414564	2800694
		13.79%	3.43%	72.86%	1.04%	8.87%				86.21%	71.74%
1992	5.00	541040	219376	3478527	72725	518400				4269029	4810069
		11.25%	4.56%	72.32%	1.51%	10.78%				88.75%	85.26%
1993	5.00	728003	1246789	5830366	55962	1050111				8183229	8911232
		8.17%	13.99%	65.43%	0.63%	11.78%				91.83%	3.48%
31.3.1994	80.00	861990	830273	6217054	142288	1169661				8359277	9221267
		9.35%	9.00%	67.42%	1.54%	12.68%				90.65%	7.75%
1994-95	80.00	1039500	612324	6271109	92450	1920836				8896719	9936219
		10.46%	6.16%	63.11%	0.93%	19.33%				89.54%	23.28%
1995-96	80.00	1173310	552495	6529868	101024	1682911	2210103			11076402	12249712
		9.58%	4.51%	53.31%	0.82%	13.74%	18.04%			90.42%	5.78%
1996-97	80.00	1232450	986026	6164212	80504	1843686	2651420	26632		11725848	129582298
		9.51%	7.61%	47.57%	0.62%	14.23%	20.46%	0.20%		90.49%	-2.74%
1997-98	80.00	1336170	877560	5022327	41937	1854364	3307578	53637	109816	11267220	12603390
		10.60%	6.96%	39.85%	0.33%	14.91%	26.24%	0.42%	0.87%	89.40%	-0.76%
1998-99	80.00	1460760	741764	4279675	31007	1423014	4246702	51977	271978	11046145	12506905
		11.68%	5.93%	34.22%	0.25%	11.38%	33.95	0.43%	2.16%	88.32%	

Note : 1. % in Column 12 refers to Growth Percentage. 2. All other% refers to percentage of Column 12.

would also like to deposit more in *Halal* income earning Recurring Deposits. Fixed Deposits for duration of one to 3 years were also accepted from 1996-97. Pigmy collections in the form of Spot Deposits were commenced from 1997-98. Both Fixed and Spot Deposits were return free. The total Funds mobilised by BCCS have increased by about 40 times during the 15 years of its operation from Rs. 3.0 lakh in 1985 to Rs. 125.07 lakh in 1998-99. In 1996-97 BCCS had opened 441 new Saving Deposit accounts, 625 RIDI accounts, 10 ID accounts and just 6 Current accounts. The number of total accounts with BCCS are over 15000.

Loans:

BCCS is primarily lending interest-free loans. It is also giving business loans on PLS basis. Till 1994 interest-free loans have accounted for about 90% of total loans. After 1994 interest-free loans have declined by about 20% but are still higher at over 70% of total loans. Interest-free loans are given mainly for petty and small-scale business; for redemption of interest bearing debts and housing rather than for domestic purposes. Interest-free loans are given against the security of gold ornaments, member's Deposits, personal guarantee, property, business assets etc. Loans given against the personal guarantee and security of property have been gradually reduced because of the higher incidence of default. According to the Management about Rs. 15.00 lakhs are blocked in such loans, though exact figures are not available. In 1985 at the end of first year of its operation BCCS had disbursed Rs. 2.11 lakh as interest-free loan to 75 members at an average of Rs. 2820. In 1998-99 341 members were given Rs. 71.30 lakh at an average of Rs. 20910.36 (Table No. 4.6.). 47 members received an average Hire-Purchase loan of Rs. 668.32 in 1985, and just 5 members were given an average Hire-Purchase loan of Rs. 7680.80 in 1998-99. Hire purchase loans are given by BCCS for purchase of machinery and vehicles, but recovery has been very slow and Costly hence such loans have been gradually reduced from over 37.22% in 1987 to just 0.38% in 1998-99 of the total loans.

BCCS has also been accepting Investment and Recurring Investment Deposits. consequently it is also extending PLS loans for one to 3 yeaRs. Between 1991 and 1999 its PLS Investment Loans have increased from Rs. 2.40 lakh to Rs. 27.87 lakh in 1998-99, thus registering an increase from 11.68% of total loans to 27.99%. Investments were made mainly in Crescent Plastics, Tata core Fund, Deshmukh Advertisements, A K and M K Textiles, Suman Motels etc. Total loans (Table No. 4.6) extended by BCCS have increased from Rs. 2.43 lakh in 1985 to Rs. 99.56 lakh in 1998-99, thus registering an increase by about 40 times during the 15 year period. Fixed Assets of BCCS are about 7% and Bank Balances are 17% of total Funds.

BCCS is more an Islamic social service organisation than purely an Islamic Financial enterprise. It is clear from a look at Table No. 4.7 that details the year-wise earnings of BCCS. All the sources of earnings except Service Charges and Investment Profit (Table No. 4.7) are for providing various services. Service Charges, Commission, Account Operating Charges, Sale of Forms, Professional Charges, Souvenir Income, Economic Aid (donations) etc. are for different services provided to members, together they account for over 80% of the total earnings.

Service Charges received from beneficiaries of interest-free loans forms the largest portion of total earnings of BCCS. However after registering the highest contribution of 89.16% in 1993 the Service Charges have gradually declined to 50 .90% in 1999 BCCS has not followed a uniform policy of collecting Service Charges. Till 1987 4% of loan amount was recovered as Service Charge for the entire loan period of one or more yeaRs. The amount was increased to 6% between 1987 to 1991, 8% between 1991 to 1996, 12% between 1996 to 1998. Since 1998 service Costs are being calculated on monthly basis and charged on outstanding loans, which are about 12 to 24% annually. Earnings from Account Operating Charges i.e. managing the investment portfolio on behalf of some members and Investment Profits i.e. profits earned from PLS Investments, together have increasingly contributed over 44% of total earnings in 1998-99. Economic Aid is nothing but donations received for providing various services at subsidised rates. Commission was earned till 1995 for paying the Telephone and Electricity charges etc, of the membeRs. BCCS doctors who treat the deserving patients and Ambulance service etc earn professional charges. Total earnings over the ten years have increased from Rs. 1.12 lakh in 1990 to Rs. 10.11 lakh in 1998-99.

Year-wise Fund Mobilisation of Bait-ul-Maal Co-operative Credit Society Ltd. Mumbai. 1984-85 to 1998-99

Table No. 4.6 **(In Rs.)**

Year	No. of Interest Free Loans	Interest Free Loans	as% of 7	No. of H/P Loans	Hire/purchase Loans	as% of 7	PLS Invest-ment Loans	as% of 7	Total Loans	Cash &Bank Balance	% of Total Funds
1	2	3		4	5		6		7	8	
30-Jun-85	75	211500	87.07%	47	31411	12.93%			242911	NA	
		23.73%							44.13%		
		23.73%							44.13%		
1986	70	261700	74.75%	59	88414	25.25%			350114	NA	
		27.24%							51.26%		
1987	59	333000	62.88%	79	196595	37.22%			529595	NA	
		(-)34.06%							-42.82%		
1988	38	219595	72.53%	20	83155	27.47%			302750	NA	
		360.7%							275.50%		
1989	123	1011678	88.99%	20	125141	11.11%			1136819	NA	
		(-)14.21%							-17.23%		
1990	183	858038	91.19%	24	82906	8.81%	NA		940944	97691	5.91%
		91.94%							118.35%		
1991	231	1646853	80.15%	34	167754	8.16%	240000	11.68%	2054607	528857	18.88%
		87.20%							82.52%		
1992	337	3082910	82.21%	27	177171	4.72%	490000	13.07%	3750081	866534	18.01%
		123.17%							100.46%		
1993	580	6878294	91.50%	15	149245	1.98%	490000	6.52%	7517539	1001558	11.24%
		7.93%							8.46%		
1993-94	595	7423857	91.50%	9	139696	1.71%	590000	7.24%	8153553	644688	6.99%
									1.73%		
1994-95	NA	6685986	80.64%	NA	117332	1.41%	1491545	17.98%	8294864	946902	9.53%
									16.89%		
1995-96	NA	7795294	80.64%	NA	99186	1.02%	1801613	18.58%	9696021	1769592	14.44%
									-4.62%		
1996-97	NA	6122425	66.20%	NA	58755	0.63%	3067233	33.16%	9248413	3014318	23.26%
									8.49%		
1997-98	NA	7267606	72.43%	NA	46175	0.40%	2720069	27.11%	10033850	2073082	16.45%
									-0.78%		
1998-99	341	7130434	71.62%	5	38404	0.38%	2787083	27.99%	9955921	2171759	17.36%

Note : 1. % in Column 3 and 7 refer to Growth Percentages.

Year wise Distribution of Income Bait-ul-Maal Cooperative Credit Society Ltd. Mumbai. 1989-90 to 1998-99

Table No. 4.7 (In Rs)

Year	Service Charges	S.C as% of Total Cost	S.C as % of Total Income	Commi-ssion	as % of Total Income	Account Operating Fees	as % of Total Income	Sale of forms	as % of Total Income	Profess-ional Charges	as % of Total Income	Econo-mic Aid	as % of Total Income	Invest-ment Profit	as % of Total Income	Sovenier Income	as % of Total Income	Misce-llaneous Income	as % of Total Income	Total Income
1	2			3		4		5		6		7		8		9		10		11
1990	69817	94.48%	62.57%	22107	19.81%			2009	1.80%			4310	3.86%	10500	9.41%			2485	2.5%	111589
	43.47%			91.5%				113.78%				(-)89.00%						(-)70.00%		1187.4%
1991	100164	20.89%	67.13%	42325	28.37%	661	0.44%	4295	2.88%	400	0.27%	500	0.33%	NIL				854	0.6%	149199
	133.68%			(-)63.36%		125.5%		31.31%		80.25%		1104.00%						(-)5.34%		146.30%
1992	233969	36.49%	63.67%	15933	4.33%	1490	0.40%	5640	1.53%	3610	0.98%	6020	1.64%	48000	13.1%	52001	14.15%	817	0.2%	367480
	137.29%			45.01%		1691%		97.25%		62.04%		(-)53.39%				(-)80.00%		9.42%		69.45%
1993	555177	53.48%	89.16%	8922	1.43%	26695	4.29%	11125	1.79%	5850	0.94%	2812	0.45%	NIL		11200	1.82%	894	0.1%	622683
	(-)30.00%			50.72%		(-)16.61%		(-)27.00%		5.98%		(-)72.63%						762.08%		(-)29.15%
1993-94	391344	36.72%	88.70%	4397	1.00%	22556	5.11%	8200	1.86%	6200	1.40%	794	0.18%	NIL		NIL		7707	1.8%	441198
	9.57%			51.95%		7.55%		(-)11.69%				26473.0%						188.55%		37.68%
1994-95	428800	33.65%	61.64%	2113	0.30%	24260	3.49%	7250	1.04%	NIL		210991	30.3%	NIL		NIL		22239	3.2%	695664
	36.49%					93.33%		(-)5.66%				5233%						5.78%		35.00%
1995-96	585256	30.24%	62.31%	NIL		17147	1.82%	6920	0.74%	22657	2.41%	101973	10.8.%	60590	6.45%	1211250	12.90%	23507	2.5%	939200
	(-)29.90%					489.8%		(-)30.50%		40.48%		(-)75.12%		203.26%		94.56%		42.55%		10.30%
1996-97	357104	17.95%	34.47%	NIL		162862	15.72%	49.2	0.47%	31830	3.07%	25988	2.51%	1837250	17.7%	235720	22.75%	33510	3.2%	1035954
	48.72%					33.19%		21.74%		31.47%		(-)36.94%		(-)25.8%		(-)99.46%		(-)54.93%		(-)6.74%
1997-98	531104	28.57%	54.39%	NIL		220165	22.55%	5990	0.61%	48216	4.94%	16649	1.70%	137541		1400	0.14%	15439	1.6%	976505
	(-)4.07%					13.09%		42.59%		(-)65.15%		(-)94.33%		51.63%				(-)22.46%		3.57%
1998-99	514832	27.77%	50.90%	NIL		248989	24.82%	8540	0.84%	17288	1.71%	1060	0.10%	208557	20.62%	NIL		12126	1.3%	1011392

Note: All other % refer to Growth percentages.

Costs and Returns:

BCCS is performing various functions; many of them are service oriented and philanthropic in nature. Most of the social services are provided free of Cost or at subsidised rates. Some services are provided at no profit no loss basis or at some profits so as to provide for free services. The Fixed Costs of BCCS are generally 45% to 50% of the total Costs (Table No. 4.8). Variable Costs are generally between 50% to 55% of the total Costs. Salaries form generally over 60% of the variable Costs. Variable Costs as% of total Capital are generally about 7% and as% of total Loans about 9%. Total Costs are generally about 14% of total Capital and 18% of total Loan, where as net income is negative except for the year 1990. It is evident that BCCS is not an economic enterprise. It is a social service organisation thriving on social support. It is not wished to be fully commercial or profit making organisation.

The Gross Returns on total Capital and total Investments (total loans) are positive but unsatisfactory when compared with Costs. Gross Returns on Capital are generally about 7% and on Investments about 9% (Table No. 4.9). Net Returns are just about positive only when fixed Costs are ignored. When we include Fixed Costs also in the total Cost and deduct total Income from total Cost, the resulting Net Income is negative for all but the first year of operation. This is an unhealthy scenario even for a socio-economic organisation like BCCS. A consistently deficit budget will undermine the effectiveness of its socio-economic operations. Hence BCCS would do well to reduce its Costs and increase its Income. The so-called Investment Profits of BCCS are nil for many years and negligible for some years. It means the Management of BCCS will have to improve its professional efficiency to reduce Costs and increase profits.

BCCS is maintaining some Reserve Funds. But it is evident from Table No. 4.9 that most of the Funds created in 1990 have remained static. There have been no addition to either Building Fund, Bad Debt Fund or Profit and Loss Business Fund that have remained fixed respectively at Rs. 12247, Rs. 6124 and Rs. 5640. Even Reserve Fund amount is not enough to bale out the Society in any constringency. The Reserve Fund is just Rs. 58332 in 1998-99. It is obvious that the Management of BCCS will have to improve its Returns by leaps and bounds if they intend to live up to the objectives of their parent body i.e. All India Council of Muslim Economic Upliftment.

In some of the reports and writings of AICMEU it is said that a dividend of 15% on ID and 4% on RID accounts was declared in 1996-97, these dividend rates are said to be lowest in the last six years[35]. However a perusal of audited statement of accounts from 1990 to 1999 made available with reluctance after repeated approaches reveals that only once in 1993 Rs. 48000 seems to have been disbursed as investment profit of earlier years. Column 12 of Table No 4.9 shows the amount of Investment Profits payables as recorded by the auditors. Similarly the Shareholders of BCCS have never been paid any dividend.

However it is resolved to pay 10% dividend from the year 2000, though considering the mounting Costs and negative Net Returns of the Society it is doubtful whether this dividend will be paid.

4.3.2 Social Performance

As observed during the economic analysis BCCS is more an Islamic social service organisation. 99% of its Shareholders as well as depositors are Muslims, less than 5% of them being women. 98% of receivers of interest-free loans are Muslims about 20% of them being women. Most of the Investment loans (PLS loans) were also received by Muslims. Most of the interest-free loans as well as PLS loans were given for financing business, repayment of interest bearing debt and housing. 165 businessmen affected by communal riots following demolition of Babri Mosque were given interest-free loans of Rs. 20.00 lakh for rehabilitation of their business. Although the Management of BCCS would like to welcome more non-Muslims, they are not taking any special steps for the same.

35. AICMEU Annual Report 1996-97, p.7

Year wise Distribution of Costs and Reserves Bait-ul-Maal Cooperative Credit Society Ltd. Mumbai. 1989-90 to 1998-99.

Table No. 4.8 **(In Rs.)**

Year	Salaries	% of 5	Administra-Tive Costs	% Of 5	Miscellaneous Cost	% of 5	Total Variable Cost	% Of 7	Fixed Cost	% of 7	Total Cost	Variable Cost as% of Capital	Variable Cost as% Investment	Total Cost as% of Investment	Total Cost as% of Capital
1	2		3		4		5		6		7	8	9	10	11
1990	52790	80.4%	12012	18.3%	846	1.3%	65648	88.8%	8244	11.2%	73892	3.97%	6.98%	7.85%	4.47%
	67.37%		5383.26%		513.36%		322.91%								
1991	141143	66.5%	65649	30.9%	5189	2.5%	211981	44.2%	267274	55.8%	479255	7.57%	10.32%	23.32%	17.11%
	75.18%		45.02%		76.39%		65.87%								
1992	247254	70.3%	95204	27.1%	9153	2.6%	351611	56.4%	289538	43.6%	641149	7.31%	9.38%	17.10%	13.33%
	43.59%		72.22%		(-)60.76%		27.68%								
1993	355043	79.0%	163956	30.5%	3684	0.8%	448931	43.1%	591726	56.9%	1040657	5.04%	5.97%	13.84%	11.68%
	(-)6.61%		(-)5.33%		303.40%		11.71%								
1994	331252	66.1%	155224	30.9%	15044	3.0%	501520	47.1%	564188	52.9%	1065708	5.44%	6.15%	13.07%	11.56%
	17.43%		106.45%		4.89%		44.61%								
1995	383996	53.6%	320465	44.2%	15780	2.2%	725241	56.9%	548975	43.1%	1274216	7.30%	8.74%	15.96%	12.82%
	39.75%		12.99%		(-)13.95%		29.41%								
1996	543632	59.9%	381345	40.6%	13579	1.4%	938556	48.5%	996899	51.5%	1935455	7.66%	9.68%	19.96%	15.80%
	11.34%		4.72%		(-)34.49%		7.94%								
1997	605256	59.7%	399363	39.4%	8503	0.8%	1013122	50.9%	976530	49.1%	1989652	7.82%	10.95%	21.51%	15.35%
	3.79%		(-)21.67%		(-)33.63%		(-)6.51%								
1998	628222	66.3%	312833	33.0%	6593	0.7%	947648	51.0%	911531	49.0%	1859179	7.52%	9.44%	18.53%	14.75%
	9.83%		(-)2.31%		43.60%		6.07%								
1999	689991	68.6%	305621	30.9%	9599	0.9%	1005211	55.0%	849651	45.0%	1853862	8.04%	10.10%	18.62%	14.82%

Note: 1. All other% refers to Growth Percentages.

Returns on Capital And Investment And Reserve Funds Bait-ul-Maal Cooperative Credit Society Ltd. Mumbai. 1989-90 to 1998-99.

Table No. 4.9 **(In Rs.)**

Year	Net Income. I*	Net Income. II*	Gross Returns on Capital	Net Returns on Capital	Gross Returns on Investment	Net Returns on Investment	Building Fund	Bad Debt Fund	Reserve Fund	P & L Business Fund	Profit Payable
1	2	3	4	5	6	7	8	9	10	11	12
1990	37697	45950	6.75	2.78	11.86	4.88	12247	6124	11901		
									24.5%		
1991	-330056	-62780	5.34	-2.24	7.26	-3.01	12247	6124	14820		
									21.86%		
1992	-273669	15869	7.64	0.33	9.80	0.43	12247	6124	18060		
									18.07%		
1993	-417974	173749	6.98	1.95	8.28	2.31	12247	6124	20764	5640	
									9.90%		
1993-94	-624510	-60322	4.78	-0.55	5.41	-0.74	12247	6124	22821	5640	50010
									9.11%		
1994-95	-578552	-29577	7.00	-0.30	8.39	-0.36	12247	6124	24901	5640	171480
									5.69%		
1995-96	-996255	644	6.67	0.01	9.69	0.01	12247	6124	26320	5640	139028
									3.92%		
1996-97	-953698	22832	7.99	0.18	11.20	0.25	12247	6124	27352	5640	201698
									109.63%		
199798	-882674	28857	7.75	0.23	9.73	2.87	12247	6124	57337	5640	140162
									1.74%		
1998-99	-842470	6181	8.09	0.05	10.16	0.06	12247	6124	58332	5640	139664

Note : 1. Net Income. I = Total Income - (Fixed Cost + Variable Costs).

2. Net Income. II = Total Income - Variable Costs.

3. Net Return on Capital and Investment are calculated on the basis of Net Income II.

4.% in Column 9 refers to Growth Percentage.

With 441 Saving Deposits, 625 RID, just 10 ID and only 6 Current Deposit accounts BCCS cannot create any note worthy socio-economic impact on over 2 million Muslims of greater Mumbai. The area of operation of BCCS is restricted to Mumbai and its suburbs. BCCS has 3 Branches. Bait-un-Nas'r Co-operative Credit Society established in 1976 in Mumbai itself has 20 branches and much stronger presence in the limited market of Islamic finance in Mumbai.

4.3.3 Managerial Performance

BCCS is managed by a Managing Committee consisting of a Chairman, Secretary, Treasure, and 6 members. Day-to-day administration is looked after by a Gen. Manager and Branch Managers. Every Branch Manager is supported by cashier, ledger keeper, pigmy collectors and attenders. In all there are about 35 members of staff on roll. Like in most of the IFIs of India the staff of BCCS is also paid low salaries. The Gen. Manager, a postgraduate is paid starting salary of Rs. 4500 p.m. Branch Manager is paid Rs. 3500 p.m. Cashier gets Rs. 2000 p.m. Clerks get Rs. 1800, and Attenders Rs. 1200. Most of the staff except attenders are graduates, through none of them is professionally qualified. No training is provided for the staff. On the job training received is the only training.

The main objectives of the Management of BCCS are to rid people of interest, to promote thrift, mutual co-operation and Islamic Financial system, and finally to make interest-free loans and PLS Investment Funds available to all. However the Management is yet to be fully satisfied as far as attainment of these objectives are concerned. The Surplus and Reserve Funds at the disposal of BCCS are negligible hence it cannot formulate any ambitious plans for expansion or diversification. The Management is aware of Multinational Banks entering the field of Islamic finance. They propose to diversify the activities of BCCS and form a strong Federation of IFIs of India subject to the availability of funds and necessary co-operation from the community and Govt. officials. The Management did try to establish financial, technical and training links with Islamic Financial Institutions in other countries, but did not find it feasible. The Management has not approached Govt. or RBI for removal of legal and statutory hurdles in the way of IFIs but desires permission for IFIs of India to function as Commercial Banks.

4.3.4 Problems and Prospects

The foremost problem of BCCS is its small size and limited operations. Various other problems of BCCS are lack of Reserve Funds, higher Costs, lower profitability, lack of financial discipline and standardised accounting practices. For instance no data is made available about Non Performing Assets, bad debts and losses. No internal assessment is made about the productivity of various Deposit mobilisation as well as Fund ultilisation schemes. No separate data is available to determine the profitability or otherwise of Hire Purchase loans, PLS Investments and RID. Dividends on ID and RID are declared for some years but they have been disbursed only once. The data published in some of the Reports of Society are not uniform or consistent. The fact that BCCS has not been able to build substantial Reserves and Fixed Assets even after 15 years of its operations suggests that it is not being managed professionally.

The real status of BCCS that emerges from the perusal of its Deposit mobilisation and utilisation efforts is that, it is an Islamic social service organisation rather than a pure financial and commercial institution. BCCS is clearly the vehicle of AICMEU to run a movement for socio-economic renaissance of Indian Muslims on Islamic lines. As a result the commitment and attention of Management as well as the staff of BCCS seem to be divided between several responsibilities and goals. Financial Institutions especially development of IFIs requires undivided commitment and professional expertise if they are to succeed in unfavourable financial and socio-political environment. BCCS will have to gather much more financial strength and proficiency if it is to succeed in fulfilling the dream of AICMEU. The fact that BCCS has survived for 15 years and is growing though slowly, inspite of competition and unfavourable and unsatisfactory environment is testimony of the resolute determination and unflinching dedication of its Management.

4.4 Nehru College Staff Co-operative Credit Society Ltd. Hubli 1980-1998

Nehru Arts Science and Commerce College was started in the year 1968 by the local Anjuman-e-Islam of Hubli. Hubli is the second largest city of Karnataka after Bangalore. The city has a Muslim population of over 35%, though most of them like else where in the country are backward and poor. Nehru College has a staff of more than 80, 65 of whom are approved by the Department of Collegiate Education. Only approved members of staff whose salary is paid by the state govt. are members of the Co-operative Credit Society. Nehru College Staff Co-operative Credit Society Ltd. (NCSCCS) was started in the year 1975. Till 1979 the Society was also borrowing funds from the District Co-operative Bank at 15% interest and loaning it to its staff at 17% to 18%. Since 1981 it is not borrowing any funds. It is relying solely on the Share Capital of its members for mobilisation of Funds and distribution of interest-free loans. Thus it has started practicing the principle of interest-free Islamic Finance since 1981. Hence this study covers the activities of the Society only since 1981.

4.4.1 Economic Performance

50 members of teaching staff and 20 members of non-teaching staff who were receiving their salary from state govt. as approved staff were the members of NCSCC. The membership had gradually declined to 65 because of the retirement of some staff, very few new staff members have been added because they are not being approved by the department since 1986. Unapproved members of staff are not made the members of Society because they receive meager, nominal salary and their services are temporary. As such it is risky to give them loans. All the members of Society have been regularly purchasing shares of the Society on monthly basis. Thus the Society's Share Capital has increased from Rs. 0.66 lakh in 1981-82 to Rs. 16.56 lakh in 1977-98. Teaching members were generally purchasing monthly Shares of Rs. 100 till 1989 and Rs. 200 monthly from 1990. They are again thinking of increasing their monthly Shares on account of implementation of revised UGC scales. The non-teaching staff whose pay packet is smaller have been contributing Rs. 50 to 100 each month (Table No. 4.10).

NCSCCS is moblising only share capital and giving interest-free loans at service Cost of 6%, because the Registrar of Co-operative Societies is not allowing them to collect a Service Cost of less than 6%. The excess of Service Cost recovered is being returned to the members in the form of dividend that has increased from 3% initially to 5% in 1990- 91. Thus in effect the Society is charging only 1% Service Cost. Because the Operational Costs of the Society are negligible, as only 3 non-teaching staff members of college staff are handling Society's work on part-time basis. Initially the Society was giving loans of only Rs. 2000 to Rs. 3000 per member. The loan amount was gradually increased to Rs. 30000 to teaching staff and Rs. 15000 to non-teaching staff. Every month about 15 to 35 loans are given to teaching staff and about 15 to 20 loans are given to non-teaching staff. All loans are recovered in 12 equal installments by way of deductions at source from salary disbursements. Hence there are absolutely no bad debts or any over dues. The amount of total loans disbursed has increased from Rs. 0.06 lakh in 1981-82 to Rs. 14.56 lakh in 1997-98, an increase by almost 24 times, all due to the principle of self-help at nominal Cost of about 1%.

4.4.2 Managerial And Social Performance

NCSCCS is exclusively helping staff members of Nehru College only. Hence it has no specific social impact or significance. The main objective of the Society is helping its members of staff with interest-free loans at lower Cost. They are successful in attaining the limited objective. The Society is not concerned with the co-operation of others except the Department of Co-operatives. The Society has no plans for either

Nehru College Staff Cooperative Credit Society Hubli Economic Peformance 1980-1998.

Table No. 4.10 **(In Rs.)**

Year	No of Share Holders	Share Capital	No. of Loans	Loans	Operational Cost	% of 5	Cost Recoveries	% of 5	Dividend Disburred	% of 3	Reserve Fund	Fixed Deposits
1	2	3	4	5	6		7		8		9	10
1981-82	70	66000	24	60000	2000	3.33%	3600	6%			8100	
		100.00%										
1982-83	70	132000	50	130000	2400	1.84%	7800	6%			7400	
		50.00%										
1983-84	70	198000	48	192000	2500	1.30%	11520	6%	5940	3%	16480	
		100.00%										
1984-85	70	396000	55	395000	3400	0.86%	23700	6%	11880	3%	7780	30000
		16.67%										
1985-86	70	462000	46	490000	3550	0.72%	29400	6%	18480	4%	15150	35000
		14.29%										
1986-87	70	528000	35	530000	3680	0.69%	31800	6%	21120	4%	22150	40000
		12.50%										
1987-88	70	594000	36	600000	6760	1.02%	36000	6%	24000	4%	31150	45000
		11.11%										
1988-89	70	660000	42	660000	3850	0 58%	39600	6%	26400	4%	10500	80000
		10.00%										
1989-90	70	726000	36	720000	3650	0.51%	43200	6%	29040	4%	21370	90000
		14.54%										
1990-91	68	831600	37	840000	118860	1.41%	50400	6%	41580	5%	17826	100000
		15.30%										
1991-92	68	958800	42	990000	15940	1.61%	59400	6%	47940	5%	11474	125000
		13.27%										
1992-93	67	1086000	42	1080000	12680	1.71%	64800	6%	54300	5%	15654	140000
		10.28%										
1993-94	67	1197600	43	1185000	11760	0.99%	71100	6%	59880	5%	27714	15500
		10.42%										
1994-95	67	13224400	48	1170000	14460	1.23%	70200	6%	66120	5%	99534	157000
		7.89%										
1995-96	66	1426800	51	1395000	15600	1.12%	83700	6%	71340	5%	28560	200000
		7.15%										
1996-97	65	1528800	50	1380000	1723	1.25%	82800	6%	76440	5%	66490	225000
		8.32%										
1997-98	65	1656000	52	1456000	18760	1.29%	87360	6%	82800	5%	253590	255000

Note : 1. * 2 Donations of Rs 50000 Each were made to Staff For Least Operation.

2. % in Column 3 refer to Growth Percentage.

expansion or diversification. There are only 3 part-time staff employed by the Society. Office Superintendent of the college office is functioning as Manager and receiving Rs. 500 per month now, earlier he was paid only Rs. 200. There is another clerk and an attender who are being paid Rs. 300 and Rs. 200 respectively now. Principal of college is the Chairman, a senior staff member is Secretary and other 3 members of staff are DirectoRs.

The Society has been building its Fixed Assets through Fixed Deposits in Banks. It had kept Rs. 30000 in a Bank for the first time in 1983-84 and another Rs. 30000 in 1988-89. It is yielding additional Rs. 30000 in every 3 years and the total amount has grown to Rs. 2.55 lakh in 1997-98. But it is interest based. Hence it has not been touched so far. However during 1996-97 the Society has donated Rs. 1.00 lakh out of Reserve Funds to two of its own staff, one teaching and another non-teaching to meet the Cost of heart operations. Besides thc Fixed Deposits, the Society's Rcserves have increased to over Rs. 2.53 lakh in 1997-98.

4.4.3 Problems and Prospects

There are no serious problems in the functioning of NCSCCS, only limitations. It has no social impact as its activities are limited to the fore walls of Nehru College. So far it has been managed well because all the members are educated and getting sufficient loans at negligible Cost and efforts. Full and time bound recovery of loans at source from the monthly salaries of staff has reduced the risk of any losses. The Society does not have any plans to expand or diversify its activities. Hence the Society is expected to provide bigger and cheaper loans in futurc. They have to of course decide how to utilise the accumulated interest income from its Fixed Deposits. Perhaps it will be used in keeping with the principles of Islamic *Shariah*. Keeping in view the sizable Muslim population in Hubli, the successful experience of Society will hopefully encourage some members of staff to establish a PLS Islamic Financial Institution in near future.

4.5 Al-Ansar Co-operative Credit Society Ltd. Hyderabad, 1983-1999.

Al-Ansar Co-operative Credit Society Ltd. (ACCS) was established in April 1983 at Mushirabad in the city of Hyderabad. It is registered under Co-operatives Societies Act. of Andhra Pradesh, it was started by the leather merchants of Mushirabad. It does not have any Branches. It is located in a very crowded and lesser-developed part of Hyderabad. Inspite of their promises and our repeated visits and telephones the Society has failed to provide economic data for earlier years. The Society has been giving interest-free loans to the members since 1983.

4.5.1 Economic Performance

Al-Ansar Co-operative Credit Society Ltd. has like the Patni Co-operative Credit Society Ltd. of Surat, limited economic objective of helping only the community of leather merchants living in and around Mushirabad. ACCS has been mobilising Funds by way of Share Capital and Daily Deposits. Since 1998-99 they have also started accepting Saving Deposits, as a result of which their total Deposits have increased substantially.

The Share Capital of ACCS has increased from Rs. 13.00 lakh in 1997-98 to Rs. 13.14 lakh in 1998-99. However in terms of total Funds raised the Share Capital has declined because the total Deposit mobilisation has increased from 63.89% to 76.37% during the same period. Daily Deposits mobilised by ACCS have declined marginally by Rs. 1.00 lakh, but total Deposits have increased due to newly raised Savings Deposits.

Economic Performance of ACCS Mushirabad, 1997-98 to 1998-99.

Table No. 4.11

Year	Share Capital	Daily Depo-sits	Savings Deposits	Total Depo-sits	Total Funds	10 Month Loans	20 Month Loans	Total Loans	Service Charges Received	Total Cost	Bad Debts	Reser-ves
1	2	3	4	5	6	7	8	9	10	11	12	13
97-98	i3.00	23.00	Nil	23.00	36.00	22.00	27.00	49.00	4.92	4 78	2.45	7.50
	36.1%	63.9%		63.9%		44.9%	55.1%	136%	10.0%	9 8%	5.0%	20.8%
98-99	13.14	22 00	12.00	34 00	47.14	18.00	22 00	40 00	5.73	5.00	2.00	7.50
	27.9%	46 7%	25.5%	76.4%		45.0%	55.0%	84.9%	14.3%	12.5%	5.0%	15.9%

ACCS has been performing only the functions of mobilising Funds and giving interest-free loans. The Society is giving mainly two type of loans. Short-term loans of Rs. 10000 or less are given for a period of 10 months. Medium term loans of Rs. 20000 are given for a period of 20 months. Rs. 750 is charged as Service Charges on the short-term loans of Rs. 10000 and Rs. 2000 are charged on the medium term loans of Rs. 20000. The Service Charges are imposed on the basis of no loss no profit. The total Loans have gone down to Rs. 40.00 lakh in 1998-99 from Rs. 49.00 lakh in 1997-98. The Cost of providing loans is marginally lower than the Service Charges recovered. Cost of loans itself has increased from 10.04% in 1997-98 to 14.32% in 1998-99. Staff Costs are about 25% , but Daily Deposit mobilisation Costs are 30% of the total Cost. 3% commission on collections is paid to pigmy agents. This once again shows that higher Fund mobilisation Cost of Deposits is largely responsible for higher total Cost of IFSs and ICCSs.

The problem of bad debts is universal, though many institutions do not reveal it. The Bad Debts of ACCS are about 5% of total Loans. Cases have been initiated against big defaulteRs. Outstanding loans of small amounts are being written off. Generally 25% of short-term loans and 20% loans of medium term loans are outstanding for more than one year. The Society's office is still being run in a rented building. Even after 17 years of working the Society has not been able to possess any Fixed Assets except Rs. 7.5 lakh of Fixed Deposits, which are statutorily maintained in a nationalised Bank.

4.5.2 Social Performance

Strictly speaking ACCS is not a commercial organisation because its objective is not earning and distribution of profits. However it is an economic and not social organisation. As a result it does not have much of direct social impact, though by helping small businessmen with interest-free loans, it does improve their social status. Surprisingly about 25% of women are the Shareholders of ACCS. Total number of Shareholders is 1000 and depositors about 1500, all of them are Muslims. Women form 10% of daily depositors and about 5% of Saving account holdeRs. In the borrowers group women form about 5% and non-Muslims about 1%. The Management has no plans to increasingly welcome non-Muslims. They don't advertise their operations. They are receiving satisfactory co-operation from Muslim masses and Govt. officials, others do not matter.

4.5.3 Managerial Performance

The ACCS is managed by a President, a Secretary, a Treasurer and 9 Directors who are elected by ShareholdeRs. The Secretary performs all the executive functions . The office is managed by a Manager , a clerk-cum-cashier and an attender. The Manager is paid Rs. 4000 p.m., clerk is paid Rs. 2500, and attender is paid Rs. 1200. The main objective of the Society is to help the poor Muslim leather merchants with interest-free loans. They are satisfied that the objective is being attained. They are keeping the Surplus cash and Reserves in the Bank. No training is given to the staff. The Management is not aware of the Multinationals entering the field of Islamic Finance. They have no plans for diversification of their activities or joining the federation of IFIs. They have not thought of any technical, financial or training linkages with any other IFI. Nor have they thought of representing to authorities for favour of IFIs, as they have no suggestions for any modification in rules for promotion of IFIs in India.

4.5.4 Problems And Potential

ACCS is a small effort by leather merchants of Mushirabad to help themselves. They are inching towards attainment of this objective for the last 17 years. They have not aimed at any other target. Even own office building is not an objective. The Society would do well to invest some of its capital in income earning activities so as to reduce the Service Charges if not for providing dividend to Shareholders. The potential of the Society is in the service of its people.

CHAPTER 5

ISLAMIC INVESTMENT AND FINANCIAL COMPANIES OF INDIA

Non Banking Financial Companies are important part of Indian financial system bordering its banking sector. Indian Commercial Banks can only accept Deposits and lend credit, they cannot accept Equity Funds nor invest on profit and loss sharing basis. It is left to NBFCs to perform these functions. Since interest-free commercial banking on the basis of PLS is not permitted in India, Indian Muslims have the only alternative of establishing PLS Non-Banking Financial Companies.

IIFCs of India are mobilising their Funds largely through *Mudarabah* Term Deposits from both resident and non-resident Indians. The depositors are generally entitled to Bonus distributed usually at half yearly intervals on the basis of profits earned by the Company. Scheme Deposits like Advance Linked Deposits, Taufeer Deposits, Housing Deposits, are also employed by some of the IIFCs. Share Capital is the other important source of Funds raised by IIFCs of India. Some of the IIFCs are also raising Funds from Fully Convertible Debentures and loans.

Generally most of the income is earned by IIFCs of India from *Ijara* i.e Leasing Investments. Hire Purchase and *Murabahah* i.e. mark up pricing or Cost plus finance which involves a contract in which a client wishing to purchase equipment or goods requests the Company to purchase these items and resell them to him at Cost plus a reasonable profit payable on the terms agreed to between the parties, is another important source of IIFCs of India's earnings. *Musharakah* i.e. Trust or joint project financing, *Mudarabah* or Joint Venture financing on profit and loss sharing basis are also employed as source of earnings, though on a lesser scale. Investments in Equity Shares of the blue chip Companies and in real estate or housing finance are other income earning avenues of IIFCs of India

It was in 1980 that the first Islamic Investment and Financial Company (IIFC) called Al-Mizan was established at Madras. It was promoted by leading Muslim leather merchants of Tamilnadu. It consisted of a Mother Company and a Group of 19 partnership firms, each with 19 members. The Share Capital of each partner was in multiples of Rs. 25000. Thus Share Capital of more than Rs.350 lakh was raised. Each partnership firm was responsible for purchase of raw leather from its area and sell it to the Mother Company at reasonable profit. The managing partner of every partnership firm was the representative of Mother Company. Unfortunately the experiment failed miserably in 1984-85, when the Company incurred heavy losses mainly due to mismanagement.

It was the Management of Bait-un-Nas'r Co-operative Credit Society Ltd. of Mumbai that established the next Group of IIFCs. Two Public Ltd, Investment Companies viz. Falah Investments Ltd., and Ittefaq Investments Ltd., were established in 1983. In 1988 Barkat Investments Ltd., was established. Barkat Leasing and Financial Services Ltd. (BLFSL) was established in the year 1991. The Deposit base of Barkat Group of Companies had shown remarkable progress till 1997, increasing from a few lakh rupees in 1984 to Rs. 3020 lakh (Rs. 320 million) in 1997-98. However, since 1997-98 it has been incurring heavy losses due to huge unprofitable investments in real estate.

Al-Ameen Educational Group of Bangalore had established an interest-based Urban Co-operative Bank called Amanath Urban Co-operative Bank Ltd. in 1977, which is running successfully and has secured Scheduled Bank status recently. They had also started Al-Ameen Islamic Financial and Investment Corporation Ltd. (AIFIC) in 1986, which is functioning mainly as a Leasing Company. At one time it had 25 Branches all over the country. After the implementation of stiff Prudential Norms by RBI in 1997-98 AIFIC had to increase Equity Ratio and restructure its operations to secure RBI registration. As a result it has suffered some losses since 1998.

The story of many other IIFCs is not much different. Except Al-Barr/ Al-Baraka Finance House Ltd., of Bombay with 9 branches and Assalam Financial and Investment Co. Pvt. Ltd., of Calicut, Kerala, none of the IIFCs of India were able to secure R.B.I registration till April 1999. Because they did not fulfill the Prudential Norms set by R.B.I. Where as the applications of Al-Falah Investments Ltd., and Fateh Leasing and Finance (p) Ltd., of Delhi and many others have been rejected by R.B.I. The applications of some of the IIFCs including AIFIC are still pending.

Seyad Shariat Finance Ltd of Tamilnadu is another Leasing Company that is doing well inspite of the limitations set by new NBFC norms. SSFL was established in the year 1987-88. It has 9 branches. Recently it has become the third IIFC to have secured RBI registration.

Some of the economically unsound and mismanaged IIFCs of India like Al-Falah Investments of Lucknow and Bait-ul-Islam Finance and Investment (p) Ltd., of Calicut, Kerala have been winded up. There have also been some fly-by-night IIFCs like Zuby Enterprises and Al-Falah Finance of Hyderabad who have exploited the religiosity as well as greed of people to make fast money and disappeared according to press reports. Many others are struggling to survive not only due to strict RBI norms but also because of lack of professional management, transparency, and public support especially of Muslim community.

This study has identified 49 IIFCs operating in India, though many of them have either freezed their operations or closed down. The five IIFCs selected for this study are as follows.

1. Barkat Leasing and Financial Service Ltd. Mumbai.
2. Al-Barr / Al-Baraka Finance House Ltd. Mumbai.
3. Al-Ameen Islamic Finance and Investment Corporation Ltd. Bangalore.
4. Seyad Shariat Finance Ltd. Tirunelveli.
5. Al-Najeeb Milli Mutual Benefits Ltd. Najibabad.

5.1 Barkat Leasing And Financial Services Ltd. Mumbai 1991-98

Barkat Leasing and Financial Services Ltd., (BLFSL) of Mumbai is a flagship of Barkat Group of Companies which are the offshoots of Bait-un-Nas'r Co-operative Credit Society Ltd.. Barkat Group of Companies includes Falah Investments Ltd., and Ittefaq Investments Ltd., established in 1983, Barkat Investment Corporation established in 1988, and Muhafiz Credit and Investment India Pvt. Ltd., established in 1994. Barkat Group also includes four partnership firms namely Barkat Finance and Investments, Barkat Savings, Barkat Securities and Finance, and Barkat Stocks and Investments. BLFSL was established in 1991 as a non-Deposit accepting Leasing Company, permitted by RBI to accept variable rate Fully Convertible Debentures (FCD) and Equity[36] It had the advantage of operating from as many as 16 branches mainly in the southern and western states of the country (Annex 5.1). In addition, since 1994 it has entered in to an understanding with Muslim Fund Najibabad and Al-Najib Milli Mutual Benefits Ltd. that have 43 Branches, to promote each other's business from the Branches of both institutions.

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36 sce Khatkhate (1997) p.18

5.1.1 Economic Performance

Economic performance data of BLFSL is available in Table No.5.1 and 5.2., the analysis are presented in following paragraphs.

Fund Mobilisation:

BLFSL is unique in its fund mobilisation efforts. Rather than relying on Deposit mobilisation, like most of the other IIFCs, BLFSL is raising most of its funds from Fully Convertible Debentures (FCD) with variable returns. (Table No.5.1). As a result BLFSL escaped the RBI restrictions on Deposit mobilising Companies imposed by the new Prudential Norms of 1997-98. Authorized Share Capital of BLFSL has gradually come down from 99.38% of total Funds in 1992-93 to just 9.67% in 1997-98.The share of FCDs being raised since 1993-94 has gradually increased to 90.25% of Funds in 1997-98. The total Funds mobilised by BLFSL have increased from Rs. 5.93 lakh in 1991-92 to Rs. 1485.02 lakh in 1997-98.

Investment Pattern:

BLFSL is investing most of its Funds in Leasing business, followed by investments in Call Money and in Equity Shares of leading Companies listed in the stock exchange. (Table No. 5.1). *Ijara* Investments of BLFSL have sharply declined from 100% of total Investments in 1991-92 to just 21.76% in 1997-98. Till 1994-95 BLFSL was investing about 60% of its Funds in Leasing activities. BLFSL has another unique feature of Investments in Call Money, which are lending's to the associates of Barkat Group of Companies only, in the form of Short-Term Deposits with variable returns. Investments of BLFSL in Call Money have increased from Rs. 4.24 lakh in 1992-93 to Rs. 788.79 lakh in 1996-97, though declined slightly to Rs. 770.22 lakh in 1997-98. Investment in Call Money has increased sharply to 66.67% in 1996-97 and declined slightly to 50.27% in 1997-98. The Investments in Call Money were found to have been made in real estate by the associates of BLFSL. BLFSL also invested Rs. 405.27 lakh forming 26.41% of Total Investments, in real estate. Thus actual Investments of BLFSL in real estate in the year 1997-98 accounted for 71.61 of the total. It was this over investment in the dubious real estate market, which led to the liquidity crunch not only for BLFSL but the entire Barkat Group of Companies and its ultimate downfall. Unlike other IIFCs of India BLFSL had the unique opportunity of utilizing its idle cash for short-term investments in Variable Return Deposits of some of the Barkat Group of Companies. Unfortunately the opportunity was not used prudently. The Equity Investments of BLFSL have come down from 28.69% in 1994-95 to just 1.63% of the total in 1997-98. The overall Investments of BLFSL have increased from Rs. 3.22 lakh in 1991-92 to Rs. 1534.34 lakh in 1997-98, accounting for a Deployment Ratio of 103.32%. The over investment was mainly due to huge investment in real estate in 1997-98. Infact the Deployment Ratio of BLFSL is consistently above 100% since 1993-94, which has eroded the liquidity of BLFSL.

Earnings:

BLFSL is earning substantial portion of income from leasing office equipment and vehicles. Together with lease management fees, lease rentals account for over 60% of its total earnings except for two years during 1995-96, 1996-97; when income from other sources which mainly includes earnings from investments in call money is higher (Table No. 5.2). Whereas earnings of BLFSL from leasing activities are steadily growing the returns from investment in equity are fluctuating which may be the reason why majority of IIFCs of India do not invest in stocks. General impurity of stocks listed in stock exchange may be the other reason. Lack of innovative entrepreneurship and dubious honesty of Muslim businessmen may be the reasons why BLFSL has not invested in joint ventures or project financing on profit and loss sharing basis. BLFSL has also earned some income by selling some of its assets in 1997 and 1998. The total income of BLFSL has increased from Rs. 0.16 lakh in 1991-92 to Rs. 158.55 lakh in 1996-97, but come down again to Rs. 78.74 lakh in 1997-98.

Cost and Returns:

The total Cost of BLFSL has increased from Rs. 0.12 lakh in 1991-92 to Rs. 153.43 lakh in 1997-98. It consists of Salaries, Office Administration Cost, the Return paid to contributors of FCD and Miscellaneous

Fund Mobilisation and Deployment by Barkat Leasing and Financial Services Ltd. Mumbai. 1991-92 to 1997-98

Table No. 5.1

YEAR	AUTHOR-ISED CAPITAL	SHARE CAPITAL	CONVERTI-BLE DEBENTU-RES	PROFITS C/F	TOTAL FUNDS	INVEST-MENT IN EQUITY	IJARA INVEST-MENTS	INV. IN CALL MONEY	FIXED DEPOSIT	INV. IN REAL ESTATE	TOTAL INVEST-MENT	BANK BALLAN-CES
1	2	3	4	5	6	7	8	9	10	11	12	13
	RS. LAKHS	RS. LAKHS	RS. LAKHS	RS.	RS.	RS.	RS	RS.	RS.	RS.	RS.	RS.
1991-92	10	5.00	0	2604	593191	0	322100	0	0	0	322100	479420
		84.29%		0.44%			100.00%					
92-93	100	25.00	0	15589	2515589	196750	1479042	424000	0	0	2099792	609022
		99.38%		0.62%	324.08%	9.37%	70.44%	20.19%			551.91%	
93-94	100	25.00	32.75	127908	5902908	1071910	4086581	213400	0	0	7292491	750455
		42.35%	55.48%	2.17%	134.65%	14.70%	56.04%	2.93%			247.30%	
94-95	100	28.07	147.65	246485	17818485	5469936	11398535	2194000	0	0	19062471	1679142
		15.75%	82.86%	1.38%	201.86%	28.69%	59.80%	11.51%			161.40%	
95-96	100	62.63	616.60	652511	68756011	2680330	22080741	47722254	5000	0	72488325	2037594
		9.11%	89.68%	0.95%	285.87%	3.70%	30.46%	65.83%			280.27%	
96-97	200	91.26	902.85	764218	100299218	2623898	36805098	78879528	5000	0	118313624	1205548
		9.10%	90.02%	0.76%	45.88%	2.22%	31.11%	66.67%			63.22%	
97-98	200	143.6	1340.18	0	148502100	2496130	33383820	77022504	5000	40527016	153434470	448963
		9.67%	90.25%		48.06%	1.63%	21.76%	50.20%		26.41%	29.68%	

Note 1: Column no 6 and 12 percentages represent annual growth percentage

2: Column no 3, 4 and 5 percentages represent percentage of total funds

3: Column no 7, 8, 9 and 11 percentages represent percentage of total investments

Year-Wise Distribution of Income Barkat Leasing and Financial Services Ltd. Mumbai. 1991-92 to 1997-98

(In Rs.)

Table No. 5.2

YEAR	LEASE RENTALS	LEASE MGT. FEES	OTHER INCOME	PROFIT FROM SALE OF EQUITY	PROFIT FROM SALE OF ASSETS	TOTAL	NET INCOME
1	2	3	4	5	6	7	8
1991-92	0	16105	0	0	0	16105	3831
		100.00%					
1992-93	246562	1250	44906	0	0	292718	201633
	84.23%	0.43%	15.34%	0.00%		1717.56%	5163.19%
1993-94	523029	15071	62434	35460	0	635994	339735
	82.24%	2.37%	9.82%	5.58%		117.27%	68.49%
1994-95	1790971	67208	431181	913199	0	3202559	1001137
	55.92%	2.10%	13.46%	28.51%		403.55%	194.68%
1995-96	3540013	134941	4523661	1663133	0	9861748	2200914
	35.90%	1.37%	45.87%	16.86%		207.93%	119.84%
1996-97	6557929	230870	8901104	26025	139584	15855512	3442120
	41.36%	1.46%	56.14%	0.16%	0.88%	60.78%	56.40%
1997-98	7623420	80674	92454	12343	65253	7874144	-7468516
	96.82%	1.02%	1.17%	0.16%	0.83%	-50.34%	-316.97

Note 1: Column no.7 and 8 percentages represent annual growth percentage

2: Rest of the percentages represent percentage of total income

Costs. Return paid on Debentures has formed 26% to 67% of Costs till 1996-97, though it has declined to just 0.5% of total Cost in 1997-98. Salaries have formed next highest component of total Cost followed by Office Administration Cost. Total Cost as percentage of total Funds has increased from 2.07% in 1991-92 to 12.38% in 1996-97 but declined to 10.33% in 1997-98. Cost as percentage of total Investment has increased from 3.81% in 1991-92 to about 10% in 1997-98. (Table No.5.3).

The Net Income of BLFSL has been positive for all the years except in 1997-98 when it is negative to the extent of Rs.74.69 lakh. As far as Gross total Income of BLFSL is concerned it may be regarded as satisfactory except in the last year of its operation. But the profitability of BLFSL is not very satisfactory, (Table No: 5.4) Gross Returns on Funds of BLFSL have registered satisfactory increase from 2 .71% in 1991-92 to 17.97% in 1994-95 Gross Returns on Investments have also shown an ascending trend from 5% to 16.8% during same period. However in subsequent years Gross Returns on Funds as well as on Investment have declined to 5.3% and 5.13% respectively in the year 1997-98. The Net Returns on Funds have after increasing for first 3 years, generally shown declining trend from 3.49% in 1993-94 to minus 7.3% in 1997-98. Net Returns on Investments have however shown a declining trend from third year itself, they have declined from 3.83% in 1992-93 to minus 6.99% in 1997-98. Thus it is obvious that BLFSL Management has not been successful as far as the objective of profitability is concerned. They will have to take a good look at their investment pattern and policy and improve their proficiency if they have to survive in the increasingly competitive market. Moreover huge negative Net Income, negative Net Returns and negative Reserve Funds in 1997-98 project a red signal for the economic viability and stability of BLFSL. The cash in hand and banks is also very meager at Rs. 4.49 lakh in 1997-98, which is totally inadequate to bail out BLFSL.

Dividend declared by BLFSL, subject to Income Tax has generally varied from 5% to 7.5%. Though the Returns on Fully Convertible Debentures have varied between 11% to 16% subject again to Income Tax. The bias in favour of higher Returns on FCD may be pragmatic but lower return to its own Shareholders is against the spirit of Islamic economics and finance. Although tax and statutory considerations may have played more important role in determining the income earning as well as distribution of BLFSL, there is no doubt that BLFSL Management will have to spread its Investments and attain a better equilibrium between deployment of funds and liquidity as well as profitability if its future is to be safeguarded.

5.1.2 Social Performance

BLFSL is a commercial venture. As such it does not have a specific social agenda. The Shareholders and FCD holders are almost exclusively Muslim, women forming only about 5% of them. However till 1996-97 when BLFSL was paying handsome returns on FCDs and dividend to its Shareholders, there was a favorable social impact. BLFSL and the Barkat Group of Companies and its Directors were held in high esteem as competent promoters of PLS Islamic Investments. Particularly its Managing Director Mr. M. H. Khatkhate was regarded as a genius Islamic financial Engineer. But after 1998 with the huge losses, liquidity crunch of BLFSL as well as other Barkat Group of Companies and failure to meet financial commitments, has adversely affected their economic and social standing.

5.1.3 Managerial Performance

The BLFSL is managed by a Board of Directors consisting of 10 members, two of whom Mr. M. H. Khatkhate and Yusuf Patkar are whole time Directors. The Board of Directors are supported by heads of Administration, Accounts and Finance, Legal and Secretariat, Share Recording and Transfer departments. There are also Zonal and Branch Managers. Accounts officer, clerks and attenders assist each Branch Manager, their number depends on Branch business. The staff is comparatively well paid. Senior officers get Rs. 5000 to Rs. 15000 p.m., Middle level officers are paid Rs. 3000 to Rs. 5000, clerks between Rs. 2000 to Rs. 3000 and attenders Rs. 1500 to Rs. 2000. Neither the BLFSL nor any of the Barkat Group of Companies has a *Shariah* Advisory Board.

Year-Wise Distribution of Costs of Barkat Leasing and Financial Services Ltd. Mumbai. 1991-92 to 1997-98

Table No. 5.3 **(In Rs.)**

YEAR	SALARIES	OFFICE ADMIN. COST*	MISCELLAN-EOUS COSTS	DEPREC-IATION**	RETURN ON DEBENTU-RES	TOTAL COSTS	COST AS% OF FUNDS	COST AS% OF INVESTMENT
I	2	3	4	5	6	7	8	9
1991-92	7973	12725	4752	776	0	12274	2.07	3.81
	64.96%	103.67%	38.72%					
1992-93	18000	88635	12798	121134	0	91085	3.62	4.34
	19.76%	97.31%	14.05%			642.10%		
1993-94	49522	789900	106197	133665	75968	296259	5.02	4.06
	16.72%	266.62%	35.85%		25.64%	225.26%		
1994-95	250688	847777	141307	692922	1313255	2201422	12.35	11.55
	11.39%	38.51%	6.42%		59.65%	643.07%		
1995-96	660645	2079061	329137	1456257	5330303	7660834	11.14	10.57
	8.62%	27.14%	4.30%		69.58%	247.99%		
1996-97	2567611	3870542	712193	2687417	8325280	12413392	12.38	10.49
	20.68%	31.18%	5.74%		67.07%	62.04%		
1997-98	7627964	12253037	828879	3261613	76223	15342660	10.33	9.99
	49.72%	79.86%	5.40%		0.50%	23.60%		

* Including salaries

** It is not included in total Cost

Note : 1 Column 2,3,4 and 6 percentages represent percentage of total Cost

2 : Column 7 percentages represent annual growth percentage

Year-wise Returns on Capital and Investments of Barkat Leasing And Financial Services Ltd. Mumbai. 1991-92 to 1997-98

Table No. 5.4

YEAR	GROSS RETURNS ON FUNDS	NET RETURNS ON FUNDS	GROSS RETURNS ON INVESTMENT	NET RETURNS ON INVESTMENT.
	%	%	%	%
1991-92	2.71	0.43	5	0.81
1992-93	11.64	3.2	13.94	3.83
1993-94	1.77	3.49	8.72	2.83
1994-95	17.97	1.73	16.8	1.62
1995-96	14.35	1.09	13.61	1.04
1996-97	15.81	0.75	13.4	0.64
1997-98	5.3	-7.23	5.13	-6.99

Year-Wise Distribution of Profits of Barkat Leasing and Financial Services Ltd. Mumbai.

Table No.- 5.5 **(In Rs.)**

YEAR	NET PROFIT	TAX ON PROFIT	PROFIT AFTER TAX	SHAREHOLDER'S DIVIDEND	APPROP-RIATION	TOTAL RESERVE FUND.	FIXED ASSETS
1	2	3	4	5	6	7	8
1991-92	2604	0	2604	0	0	2604	321000
1992-93	80499	12465	66034	55049	0	15589	1357000
	2991.36%		2435.87%			498.66%	322.74%
1993-94	206069	0	206069	93750	0	127908	3840000
	155.99%		212.06%	70.30%		720.50%	182.98%
1994-95	308223	0	308223	189646	436131	246485	10487000
	49.57%		49.57%	102.29%		92.70%	173.10%
1995-96	751657	0	751657	345631	998142	652511	20109000
	143.87%		143.87%	82.25%	128.86%	164.73%	91.75%
1996-97	754703	135700	619003	383296	124000	764218	33255000
	0.41%		-17.65%	10.90%	-87.58%	17.12%	65.37%
1997-98	-10730130	0	-10730130	0	0	-9965912	28697000
	-1521.77%		-1833.45%			-1404.07%	-13.71%

Note : All percentages represent annual growth percentage

The operational objectives of BLFSL are to promote PLS Islamic Investments and give maximum returns to its clients. Till 1997 the Management was satisfied that the objectives were being attained. However with the business failure and losses in 1998-99 the Management had lost credibility and confidence. Suddenly the Company that was receiving more than satisfactory co-operation from Muslim masses, *Ulemas*, RBI, Govt. officials etc. was at the receiving end of all. Infact the Management has been harassed and dragged to court subsequently.

It is most unfortunate that an innovative and progressive Management that had diversified and expanded its activities to cover most of the bigger Indian cities had to meet such a fate due to business losses. The Management of BLFSL had given the instrument of Fully Convertible Debentures to IIFCs. Again it was the Management of BLFSL which persuaded Tatas to launch the fully *Shariah* compatible Tata Core Sector Mutual Fund, and promoted it as the sole marketing agent. It was the only Management, which had collaborated with another IFI viz. Muslim Fund Najibabad and its subsidiary Al-Najib Milli Mutual Benefits Ltd. to conduct each other's business from the offices of all the three entities. Thus increasing their office network to 59 Branches spread all over the country. BLFSL along with MFN had played leading role in founding of FIFO.

It was perhaps the lack of professional expertise and experience that led BLFSL to invest most of its capital in over valued real estate that crashed in 1997-98 and crushed their aspirations along with prospects.

5.1.4 Problems and Prospects

BLFSL was showing good economic performance till 1996-97. Its Deployment Costs were just around 10%, Net Income was increasing satisfactorily from Rs. 0.04 lakh in the first year of operations to Rs. 34.42 lakh in 1996-97. Reasonably good returns, from 11% to 16% were being paid to the holders of Fully Convertible Debentures. However, the progressive and innovative Management of BLFSL had perhaps become complacent and over ambitious. They could not foresee the imminent crash in overvalued real estate market in a recession-afflicted economy. Over-investments in crashing real estate market to the extent of 76.61% of total Investments, led to huge losses and severe liquidity crunch for BLFSL and Barkat Group of Companies in 1997-98. BLFSL had committed the folly of allowing its associates to deploy Call Money lending's i.e. very short-term funds, to be invested in long-term real estate investments. The inability of BLFSL to maintain adequate liquidity and Reserves to meet contingencies is likely to further destabilise it's functioning. The declining profitability implicit in the declining Net Returns on Funds as well as Deployment since 1993-94 have added to the problems of BLFSL.

There is an unforgettable lesson to be learnt by BLFSL and other IIFCs. Even with total Funds of about Rs. 1500 lakh, BLFSL could not withstand losses of Rs.107 lakh in 1997-98. The so-called Call Money Investments could not be called back because they were blocked in sliding real estate. The entire Barkat Group that claimed a total Capital resource of Rs. 3200 lakh (Rs. 320 million) in 1997-98 could not come to the rescue of BLFSL. The BLFSL was forced to close down its offices in North and South of the country and maintain only skeleton staff in its Head Office at Mumbai towards the end of 1997-98. With no turn around in the downward trend of real estate market in India, nor any respite in recessionary conditions of the economy even in 1998-99, there are no signs of improvement in the condition of BLFSL.

5.2 Al-Barr / Al-Baraka Finance House Ltd. Mumbai 1989-1999

Al-Barr / Al-Baraka Finance House Ltd. (AFHL) was established in 1989 at Mumbai. It is the most successful IIFC of India perhaps because it is the only one to have collaborations with an international IFI viz. Al-Baraka Investment and Development Company of Jeddah as well as with Indian Companies namely Housing Development Finance Corporation Ltd. and Infrastructure Leasing and Financial Services Ltd. The

Al-Baraka Group of Companies is spread over 20 countries. The AFHL is classified by SEBI as a Category Merchant Banker. It is also the most commercial and professionally managed IFI of India. Although it is not the biggest IFC of India, it is certainly the most profitable one. However its Islamic credentials are slightly blurred because it is borrowing substantial amount from Union Bank, investing it in Leasing assets and paying about 14% Cost to Union Bank, out of Lease rentals earned, which it calls permissible profit sharing rather than interest payments. Al-Baraka Finance House Ltd. was renamed as Al-Barr Finance House Ltd. in the middle of 1998. AFHL has secured a Credit Rating of MA signifying adequate safety. It has 9 branches operating in 5 states of India (Annex 5.2).

5.2.1 Economic Performance

Fund Mobilisation:

The authorized Share Capital of AFHL has increased from Rs. 10.00 million in 1989-90 to Rs. 100.00 million in 1993-94. The subscribed Capital has been increased from about Rs. 1.5 million in the first year of operations to Rs. 43 million in 1995-96. The subscribed Share Capital as percentage of total Funds has declined gradually from over 99% to just 30.34% in 1998-99, more than Dallah Al-Baraka Group (DAG) of Saudi Arabia and non-residents (Table No. 5.6) has contributed 50% of Share Capital. Its association with DAG has been very fruitful. In 1993-94 AFHL received interest-free loans from Dallah Al-Baraka Investment Company Ltd. in US to the tune of Rs. 313.60 lakh, which constituted over 40% of total funds in that year. Housing Development Finance Corporation Ltd. and Infrastructure Leasing and Financial Services Ltd. have also contributed substantially to the shares of AFHL. Since 1994-95 AFHL has been borrowing the controversial lease finance from the nationalized Union Bank of India at about 14%. The loan that it refuses to call interest based has formed 17% to 29% of the total Funds (Table No.5.6). In 1996-97 AFHL introduced an innovative Islamic financial instrument called *Halal* Bonds forming 10% to 26% of total Funds. Multiples of Rs. 5000 are to be invested in the *Halal* Bonds for a period of 1 to 3 years, carrying variable rates of return, depending on profitability of investments. Substantial *Halal* Bonds are sold to non-resident. The total Funds of AFHL have increased from over Rs. 1.5 million in 1989-90 to Rs. 14.2 million in 1998-99.

Investment Pattern:

AFHL is deploying its funds in *Ijara* i.e. Leasing, *Ijara-wa-Iqtina* i.e. Hire Purchase, *Musharakah* i.e. Equities, *Murabahah* i.e. Cost Plus financing, *Mudarabah* i.e. Trust financing and Financial Services. The investments in Leasing assets have gradually increased from 10.8% in 1991-92 to over 90% of total, Rs. 1167.73 lakh in 1998-99. The investments in Hire Purchase have declined from Rs. 3.70 lakh forming 27.80% of total investments in 1989-90 to just 0.77 lakh in 1998-99. The investments in Equities have been totally stopped since 1997-98 perhaps because of the volatility of Indian stocks. Mudarabah Financing has also gradually gone down from 67.53% of total in the first year of operation to 6.25% in 1998-99 although in terms of amount it has increased from Rs. 8.99 lakh to Rs. 80.16 lakh during same period. (Table No. 5.7)

The deployment pattern of AFHL shows that it is playing safe by engaging most of its Funds in Leasing and Hire Purchase. AFHL is also earning substantial income by way of providing consultancy services, money changing, dealing in foreign exchange, under writing and merchant banking. The PLS investments in Equities and Trust Finance have been gradually scaled down because of the higher risks and lower returns. This is a major problem of Islamic finance the world over. Perhaps because the technical and managerial skills of Muslim businessmen and entrepreneurs are generally inadequate in today's fiercely competitive market environment, although lack of morality is presumed to be more important factor inhibiting PLS investments. If Azim Hashmat Premji the Chairman of Wipro Group of Companies could build his business empire based on the pillars of technical and managerial superiority as well as honesty and integrity and become richest Indian and one of the richest man in the world, in the same market environment, then honesty and integrity or lack of it, which is a part of every society, can not be the factor limiting growth. It is only technological and managerial inferiority of Muslim society that is coming in the way of entrepreneurial and financial success in India as well as elsewhere in the world.

Year wise Mobilisation of Funds AL BARR / AL BARAKA Finance House Ltd. Mumbai. 1989-90 to 1998-99

Table No. 5.6 **(In Rs.)**

Year	Authorized Share Capital	Subscribed Share Capital	Share Application Money Awaiting Allotment	Reserves And Surplus	Loans from Union Bank	Interest-free Funds from DAIDC*	Halal Bonds	Total of Borrowed Funds (6+7+8)	Total Funds
1	2	3	4	5	6	7	8	9	10
1989-90	1,00,00,000	15,00,600	-	6,422	-	-	-	-	15,07,022
		99.57%		0.43%					
1990-91	1,00,00,000	21,56,600	-	60,325	-	-	-	-	22,16,925
		97.28%		2.72%					47.11%
1991-92	5,00,00,000	3,00,00,000	80,00,000	5,15,641	-	-	-	-	3,85,15,641
		77.89%	20.77%	1.34%					1637.35%
1992-93	5,00,00,000	3,00,00,000	80,00,000	12,87,318	-	-	-	-	3,92,87,318
		76.36%	20.36%	3.28%					2.00%
1993-94	10,00,00,000	4,00,00,000	43,11,061	25,16,977	-	3,13,60,000	-	3,13,60,000	7,81,88,038
		51.16%	5.51%	3.22%		40.11%		40.11%	99.02%
1994-95	10,00,00,000	4,00,00,000	43,11,061	81,19,005	1,46,44,207	1,56,50,000	-	3,02,94,207	8,27,24,273
		48.35%	5.21%	9.81%	17.70%	19.92%		36.62%	5.80%
1995-96	10,00,00,000	4,30,00,000	80,16,061	1,49,10,770	3,70,31,991	1,56,50,000	-	5,26,81,991	11,56,08,822
		37.19%	6.93%	12.90%	32.03%	13.54%		45.60%	39.75%
1996-97	10,00,00,000	4,30,00,000	5,28,561	2,33,18,263	2,89,09,967	1,56,50,000	1,33,58,000	5,79,17,067	12,47,63,891
		34.47%	0.42%	18.69%	23.17%	12.54%	10.70%	46.42%	7.92%
1997-98	10,00,00,000	4,30,00,000	-	2,61,26,339	1,65,74,462	-	3,76,17,072	7,03,09,272	13,94,35,611
		30.83%		18.74%	11.89%		26.98%	50.42%	11.76%
1998-99	10,00,00,000	4,30,0[illegible],000	-	2,89,40,143	4,11,49,920	-	2,42,05,372	6,97,75,292	14,17,15,435
		30.3[illegible]%		20.42%	29.04%		17.08%	49.24%	1.64%

Note : 1. Percentages in column 2 to 9 refer to percentage of column 10.

2. Percentage in column 10 refers to growth percentage.

3. DAIDC = Dallah Al-Baraka Investment and Development Company, London.

Year-wise Deployment of Funds AL BARR / AL BARAKA Finance House Ltd. Mumbai.1989-90 to 1998-99

Table No. 5.7 **(In Rs.)**

Year	Leasing	Hire Purchase	Stocks	UTI	Govt. Securities	Debentu-res.	Mutual Funds	Other Investments (4+5+6+7+8)	Mudarabah Trust Finance Investments	Total Investments
1	2	3	4	5	6	7	8	9	10	11
1989-90	-	370075	62150	-	-	-	-	62150	898832	1331057
		27.80%	-					4.67%	67.53%	-
1990-91	-	236285	79400	-	-	-	-	79400	1461013	1776698
		13.30%	27.75%					4.47%	82.23%	33.48%
1991-92	3652652	7042055	14880400	-	-	-	-	14880400	14169202	33744309
	10.80%	3.08%	18641.05%					44.10%	41.99%	1799.27%
1992-93	16030065	398034	12657900	3215000	-	857598	-	16730498	5178052	38336649
	41.80%	1.04%	-14.94%	-		-		43.64%	13.50%	13.60%
1993-94	15472513	723547	11097200	3714995	-	120000	-	14932195	31353473	68993628
	22.40%	10.50%	-12.33%	15.55%		-86.01%		21.64%	45.40%	79.96%
1994-95	39445881	978253	12375565	2063610	-	-	1000000	15441175	7555022	63420331
	62.19%	1.54%	11.52%	-44.40%				24.35%	11.90%	-8.07%
1995-96	69796739	300504	10831346	-	-	-	-	10831346	14095390	95023979
	73.50%	0.32%	-12.48%					11.39%	14.80%	49.83%
1996-97	91760151	2503579	3906372	-	1929056	-	-	5835428	27053339	127152497
	72.20%	1.97%	-16.93%		-			4.59%	21.27%	33.81%
1997-98	118865488	1194915	-	-	5407182	-	-	5407182	28221245	153688830
	77.30%	0.77%			180.30%			3.52%	18.36%	20.87%
1998-99	116772700	76689	-	-	3379700	-	-	3379700	8015668	128244757
	91.05%	0.06%			37.50%			2.64%	6.25%	-16.55%

Note : 1. Percentages in Columns 4, 5, 6, 7 & 11 refers to growth percentage.

2. Percentages in Columns 2, 3, 9 & 10 refers to percentage of Column 11.

Income Generation:

It is in the process of income generation that AFHL has been more innovative than other IIFCs of India. In addition to earning handsome income from its investments AFHL has been also earning lucrative fees income in US $ without making any direct investments. It is providing consultancy and financial services to the Dallah Al-Baraka Group for some of their investments in India. It is also engaged in ' money changing ' business though on a limited scale, only at its Madras office and mostly for *Hajies* only. The foreign exchange earning for the various services rendered have constituted over 85% of total earnings in 1990-91, though it has gone down to only 6.46% in 1998-99 after withdrawal of substantial capital by the Dallah Al Baraka Group in 1998. (Table No. 5.8 & 5.13).

Table No. 5.8 clearly brings out composition and direction of income earned by AFHL. Earnings from Leasing and Higher Purchase activities have gradually increased from about just 3% of total in the initial years to over 71% in 1998-99. Income from Fees, Trust Finance and Service Charges has declined sharply from over 95% in the first year of operation 1991-92 to 23.25% in 1998-99. Income from Mudarabah or Trust Finance was around 30% or more in earlier years from 1989-90 to 1993-94. After going down to 9.35% of the total income, it has again gone up to 25.3% in 1996-97. In 1998-99, income from Trust Finance was 16.78% of the total income inspite of the problem of Non-Performing Assets (Table No. 5.12). After making substantial profits from speculative purchase and sale of Stocks till 1994-95 AFHL has made huge losses for 3 consecutive years from 1995-96 to 1997-98. As a result trading in Stocks has been totally stopped since 1997-98 (Column 4, Table No. 5.8). Some income has also been earned by way of Dividend earned on the stocks held, trading in Foreign Currencies, and sale of Assets. Though a net loss of Rs. 7.83 lakh has also been registered from sale of Assets in 1995-96. Overall Gross Income has increased substantially from just Rs. 12.43 lakh in 1989-90 to Rs.715.21 lakh in 1998-99.

Costs and Returns:

Various Costs of AFHL are given in Tables No. 5.9 and Returns are given in Table No. 5.10 and 5.11. Both the Costs as well as Returns of AFHL are generally higher than other IIFCs of India. Fixed Costs are generally less then 10% of total Costs except in few years. Operational Costs i.e. Fixed Cost plus Personnel Costs plus Administrative and office Costs have gradually come down from 99.2% in 1989-90 to 53.8% in 1998-99 which confirms the theory that with increase in scale of operations the average Costs decline. Financed Cost i.e. the Cost of raising Debt Funds is fairly high, varying between 36% in 1995-96 to 46% of total Cost in 1998-99. Total Variable Costs were very high in the beginning at 96.32% of the total Cost in 1989-90, after coming down gradually to 71.93% in 1993-94 they have again gone up to 93.92% in 1998-99. Total Cost have gone up from Rs. 12.58 lakh in 1989-90 to Rs. 250.13 lakh in 1998-99. Cost / Fund Ratio has gone down sharply from 83.5% in 1989-90 to 10.17% in 1994-95 but again increased slightly to 17.17% in 1998-99. Cost / Deployment Ratio has also shown similar trend, it has gone down from 94.6% in 1989-90 to 12.75% in 1993-94 and again increased to 19.5% in 1998-99. Thus the average Cost of AFHL that had gone down to about 10% in 1994-95 has again gone up to over 18% in 1998-99. Introduction of Financial Costs from 1995-96 has generally led to the rising trend in total and average Costs, also leading to increasing Debt / Equity Ratio. The Returns to *Halal* Bondholders have also gone up from 2.58% in 1996-97 to 18.94% of the total Costs.

Gross Returns on Funds as well as on Investments were very good at 82.49% and 92.39% respectively in 1989-90. Both these Gross Returns after going down to 23.91% and 27.09% respectively in 1993-94 have again gone up to 50.47% and 55.77% respectively in 1998-99. Except in the first year of operation when the Net Returns on Funds as well as Investments are negative. Net Returns are found to be increasing though generally at diminishing rate. After the first year of operation Net Return on Funds have increased from 11% in 1990-91 to over 32% in 1998-99, Net Returns on investments have also registered handsome increase from 14% to over 36%. Thus AFHL Management has been proficient enough to register best returns amongst all the surviving IIFCs. The dividend declared has come down from 15% in early years of operation to 12% in the later half of the decade. Returns on *Halal* Bonds have increased from just 3% in 1996-97 to impressive 19% in 1998-99.

Year-wise Distribution of Income of AL BARR / AL BARAKA **Finance House Ltd. Mumbai 1989-90 to 1998-99**

Table No. 5.8

(In Rs.)

Year	Lease & Hire Purchase	Fees, Finance & Service Charges	* Income of Trust Financing	Profit on Sale of Stocks	Dividend on Stocks held	Profit from Trading Foreign Currencies	Profit from Sale of Assets (Net)	Earnings in Foreign Exchange for Services Rendered **	Miscellaneous Income	Gross Total Income	Net Income***
1	2	3	4	5	6	7	8	9	10	11	12
1989-90	33421	1184249	521084	20813	4630	0	0	663165	0	1243113	-15714
	2.68%	95.26%	41.92%	1.67%	0.37%			53.35%			
1990-91	60180	1490893	157093	12375	2487	0	0	1340800	0	1565935	254353
	3.84%	95.21	9.58%	0.79%	0.16%			85.62%			
1991-92	525596	3543343	3202122	4452348	31973	0	0	341221	0	8565327	3905703
	6.14%	43.37%	37.38%	51.98%	0.37%			3.98%			
1992-93	5203019	5637272	4623179	3420513	219696	53596	0	1014093	0	14534096	7469203
	35.80%	38.79%	31.81%	23.53%	1.51%	0.37%		6.98%			
1993-94	8642324	6960323	4975845	2656011	122079	312634	0	1984478	0	18693371	13011376
	46.23%	37.23%	26.62%	14.21%	0.65%	1.67%		10.62%			
1994-95	16037129	8342059	2799523	3112763	199687	1075906	58470	5542236	0	28826014	20093351
	55.63%	28.94%	9.71%	10.80%	0.69%	3073%	0.20%	19.23%			
1995-96	35478867	11069048	4445212	-4870781	211951	1399641	-782654	6623836	176491	47553344	33359389
	74061%	23.28%	9.35%		0.45%	2.94%		13.93%	0.37%		
1996-97	33955030	24693426	15288988	-1701771	86804	1335109	56288	9404438	312402	60439059	44873817
	56.18%	40.86%	25.30%		0.14%	2.21%	0.09%	15.56%	0.52%		
1997-98	44599837	18996809	12292821	-1072639	81033	2064925	423437	6703988	665940	65759342	48335341
	67.82%	28.28%	18.69%		0.12%	3.14%	0.64%	10.19%	1.01%		
1998-99	51070567	16627457	12001474	682610	19377	537688	2130756	4625983	452385	71520840	46507688
	71.41%	23.25%	16.78%	0.95%	0.03%	0.75%	2.98%	6.46%	0.63%		

Note : 1. The Numbers with ' - ' signs are losses.

2. All the% represent percentage of Column 11.

* It is estimated by deducting Earnings in Foreign Exchange for services rendered' given in Column No.9 from "Fees, Finance and Service Charges' in Column No.3.

** Already included in Column 3.

*** Net Income = Gross Income - Total Cost.

Year-wise Distribution of Costs Al-Barr / Al-Baraka Finance House Ltd. Mumbai 1989-90 to 1998-99.

Table No. 5.9

(In Rs.)

Year	Fixed Costs	Personnel Costs	Administrative & Office Costs	Total Operational Costs	Lease Finance Charges	Halal Bond Returns	Inter Corporate Deposit Costs	Total of Finance Costs	Miscellaneous Costs	Total Variable Costs *	Total Costs	Cost / Fund Ratio	Cost / Deployment Ratio
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1989-90	46300	281968	920499	1248767	-	-	-	-	10060	1212527	1258827	83.50%	94.60%
	3.68%	22.40%	73.12%	99.20%					0.80%	96.32%			
1990-91	57000	293300	951222	1301522	-	-	-	-	10060	1254582	1311582	59.20%	73.80%
	4.35%	22.36%	72.52%	99.23%					0.76%	95.65%	4.19%		
1991-92	1129914	411133	3108517	4649564	-	-	-	-	10060	3529710	4659624	12.10%	13.80%
	24.25%	8.82%	66.71%	99.78%					0.22%	75.75%	255.27%		
1992-93	1650886	937699	4466248	7054833	-	-	-	-	10060	5414007	7064893	17.90%	18.40%
	23.37%	13.27%	63.22%	99.85%					0.14%	76.63%	22.81%		
1993-94	2435168	1189595	5016307	8641070	-	-	-	-	35060	6240962	8676130	11.10%	12.75%
	28.07%	13.71%	57.82%	99.59%					0.62%	71.93%	-2.98%		
1994-95	493298	2021972	5866743	8382013	-	-	-	-	35060	7923775	8417073	10.17%	13.27%
	5.86%	24.12%	69.49%	95.98%					0.31%	90.89%	68.63%		
1995-96	1380062	2480326	5066258	8926646	5232249	-	-	5232249	35060	12813893	14193955	12.30%	14.20%
	9.72%	17.46%	35.69%	62.89%	36.86%			36.86%	0.25%	90.28%	24.38%		
1996-97	334209	2835118	5861980	9031307	6097549	401326	-	6498875	35060	15231033	15565242	12.50%	12.20%
	2.15%	18.21%	37.66%	58.02%	39.20%	2.58%		41.75%	0.23%	97.85%	9.66%		
1997-98	1023405	3235335	5789463	10048203	3528391	3812347	-	7340738	35060	16400596	17424001	12.50%	11.30%
	5.87%	9.80%	17.55%	30.46%	10.70%	11.56%		22.25%	0.11%	94.13%	11.94%		
1998-99	1520479	3140206	8793905	13454590	5974936	4736586	812000	11523522	35060	23492693	25013172	17.70%	19.50%
	6.08%	12.55%	35.16%	53.80%	23.90%	18.94%	3.25%	46.10%	0.14%	93.92%	43.56%		

Note : 1.% in column 2 to 11 refers to percentage of column 12.

2.% in column 12 refer to growth percentage.

* Variable Cost = Personal Costs + Administrative Costs + Financial Costs + Miscellaneous Costs.

** Operational Costs = Fixed Costs + Personal Costs + Administrative Costs.

Year-wise Gross and Net Returns of Al-Barr / Al-Baraka Finance House Ltd. Mumbai 1989-90 to 1998-99

Table 5.10

(In %)

Year	Gross Returns on Funds	Net Returns On Funds	Gross Returns on Investment	Net Returns on Investment	Returns On Halal Bonds	Dividend	Fixed Assets as% of Working capital	Debt Equity Ratio	Reserves & Surplus as% of Funds
1	2	3	4	5	6	7	8	9	10
1989-90	82.49	-1.04	93.39	-1.18	-	0	2.49	0	0.42
1990-91	70.64	11.47	88.14	14.32	-	15	3.39	0	2.72
1991-92	22.24	10.14	25.38	11.57	-	15	11.87	0	1.34
1992-93	36.99	19.01	37.91	19.48	-	12	45.97	0	3.28
1993-94	23.91	16.64	27.09	18.86	-	10	24.79	78.4	3.22
1994-95	34.85	21.05	45.45	27.46	-	11	52.41	75.74	9.81
1995-96	41.13	28.86	50.04	35.11	-	12	64.31	122.52	12.9
1996-97	48.44	35.97	47.53	35.29	3	12	76.91	134.69	18.69
1997-98	47.16	34.66	42.79	31.45	10.13	12	88.38	163.51	18.74
1998-99	50.47	32.81	55.77	36.26	19.57	12	84.48	162.27	20.42

Note : All values are in percentage.

Year-wise Distribution of Profits, Reserves & Fixed Assets of Al-Barr / Al-Baraka Finance House Ltd. Mumbai.1989-90 to 1998-99

Table No. 5.11 **(In Rs.)**

Year	Net Profit *	Depreciation	Year-wise Tax on Profit	Profit After Depreciation & Tax	Dividend	Statutory Reserve	General Reserves & Surplus	Fixed Assets (At Cost)
1	2	3	4	5	6	7	8	9
1989-90	28072	8720	12930	6422	-	-	6422	46300
1990-91	311353	19394	381	291578	237675	-	66747	57000
	1009.12%	122.41%	-97.05	4440.30%			939.35%	23.11%
1991-92	5035617	1515731	1780000	1739886	1284570	-	465641	6032249
	1517.33%	7715.46%	467091%	496.70%	440.47%		597.62%	10482.89%
1992-93	9120089	4990757	-	4129332	3600000	-	787318	10478453
	81.11%	229.26%		137.33%	180.25%		69.08%	206.33%
1993-94	12452409	6864417	1025000	4562992	3333333	-	1241977	8400935
	36.53%	37.54%	-	10.50%	-7.41%		57.75%	-54.33%
1994-95	20902239	8672711	2227500	10002028	4400000	-	5644005	32643234
	67.86%	26.34%	117.32%	119.20%	32%		354.44%	288.57%
1995-96	30651324	18690559	450000	11591765	4800000	-	7435770	54638836
	46.64%	115.51%	-79.80%	15.89%	9.09%		31.95%	67.38%
1996-97	40760694	27078106	3050000	10632588	5142246	-	3943263	48729851
	32.98%	44.80%	577.80%	-8.27%	7.13%		53.03%	-10.81%
1997-98	46045636	31802073	6200000	8043563	5160000	1615000	4636339	64921193
	12.97%	17.45%	103.28%	-24.35%	0.35%		17.58%	33.23%
1998-99	47395418	37872734	1000000	8522684	5160000	1710000	5240143	36507446
	2.93%	19.09%	-83.87%	5.96%	-	5.88%	13.02%	-43.77%

Note : 1. All% refer to growth percentage.

2. *Net Profit = Total Income - Variable Costs.

Net Profit (net income) of AFHL is generally increasing at diminishing rate (Column 2. Table No. 5.11). Profit after Depreciation and taxation also reveals same trend till 1995-96. For the two years between 1996-97 and 1997-98 they have declined by 8.27% and 24.35% respectively. Dividend declared too has shown same trend of an increase at diminishing rate, except that in 1993-94 when Dividend declined by 7.41%. With some exceptional years, General Reserves and Surplus, Fixed Assets and Gross Total Income also show more or less same trend over the years. In addition to Statutory Reserves AFHL has also satisfactory General Reserves so essential to meet a contingency.

Specific losses earned in some of the years by AFHL along with outstanding *Mudarabah* or Trust Loans have been given in Table No. 5.12. Maximum losses are incurred on sale of Stocks and bad debts of Trust Loans followed by some losses on sale of Lease and Higher Purchase Assets and foreign exchange dealings. It is to the credit of AFHL Management that these total Losses have been decreasing every year from Rs.48.71 lakh in 1995-96 to 6.32 lakh in 1998-99. Moreover Net Income, Reserves and Fixed Assets, Cash and Banks Balances given in the same table are evidence of the adequate liquidity and financial strength of the Company.

However huge outstanding Trust Loans and the losses therein suggest that the incidence of Non Performing Assets is fairly high. It may be due to faulty project appraisal and ineffective monitoring of these loans, which need to be addressed to, rather than reducing the quantum of these loans that serve socio-economic objectives of Islamic finance besides bringing profits to the Company. In view of 10% to 30% of total Income of AFHL being realised from Trust Finance, it can be said that Mudarabah or Trust Finance can be also profitable with appropriate project appraisals and effective post-finance monitoring of these loans.

Non-residents including International Islamic Financial Institutions have played an important role in the comparatively higher profitability of AFHL. Their contribution to total Funds and their Returns, including total Earnings and expenses of AFHL in foreign currencies are given in Table No. 5.13. Foreign currency earnings have formed substantial portion of Net Income at negligible Cost. Non-residents contribute over 50% of Share Capital. For four years between 1993-94 to 1996-97 Dallah Al Baraka Investment and Development Company of London served AFHL very well by providing huge, not only interest-free but also Cost-free loans which has had a positive impact on its Costs and Returns. Non-residents have also contributed heavily to the Funds by purchasing *Halal* Bonds, which is clear from the Returns received by them on this count.

5.2.2 Social Performance

AFHL is a profit-earning financial institution. Without having specific social objectives it is committed to promote Islamic financial principles in India. It has been lending Mudarabah PLS loans to small time Muslim businessmen like footpath sellers, small shop keepers etc. who belong to the un-organised sector of economy and who are not entertained by the Commercial Banks. AFHL is also publishing a fortnightly bulletin in English and *Urdu* for its members and customeRs. It has also started a sales unit called '*Zaiqa*-Food' on no-profit no-loss basis for poor Muslim women.

AFHL has over 1000 Shareholders including Indian and foreign financial institutions, as well as resident and non-resident Indians. In the absence of specific data it is not possible to spell out the exact% of non-Muslim Share and *Halal* Bondholders or beneficiaries of AFHL. Nevertheless it can be said that AFHL is catering largely to Muslims as far as interest-free PLS finance is concerned, though in case of Leasing, Hire Purchase and Equity Investments the beneficiaries are more Non-Muslims. AFHL is receiving satisfactory co-operation from Muslims, *Ulemas*, non-Muslims, RBI and Govt. officials.

Al-Barr / Al-Baraka Finance House Ltd. Mumbai. Distribution of Losses, Fixed Assets, Reserves & Cash Balances 1989-90 to 1998-99

Table No. 5.12 **(In Rs.)**

Year	Outstand Ing Loans *	Loss on Sale of Assets	Loss on Sale of Stocks	Loss on Foreign Exchange	Loss on Bad Debts	Total Losses	Net Profit **	Total Reserves & Surplus	Total Fixed Assets	Bank Balances	Cash in Hand
1	2	3	4	5	6	7	8	9	10	11	12
1989-90	-	-	-	-	-	-	6422	6422	37580	57234	2837
1990-91	-	-	-	-	-	-	291578	60325	75186	738843	8811
1991-92	118413	-	-	-	-	-	1739886	515641	4572771	5792238	730
1992-93	-	-	-	-	-	-	4129332	1287318	18060467	3187308	575799
1993-94	908700	-	-	-	-	-	4562992	2516977	19382605	2331127	985913
1994-95	4474248	-	-	-	-	-	10002028	8119005	43353128	17239769	2411030
1995-96	9984606	782654	4088127	-	-	4870781	11591765	14910770	74354751	12330986	2069138
1996-97	4777700	-	1701771	-	2745525	4447296	10632588	23318263	95956284	14001050	802190
1997-98	681080	-	1072639	2276602	1003025	4352266	8043563	26126339	123235350	6630916	913874
1998-99	3319481	-	-	-	632590	632590	8522684	28940143	119718473	12846103	1847732

Note : * Outstanding for more than 6 months.
** Profits after depreciation and taxation.

Share Capital & Earnings of Non-Residents Al-Barr / Al-Baraka Finance House Ltd. Mumbai 1989-90 to 1998-99

Table No. 5.13 (In Rs.)

Year	Earnings in Foreign Currencies	Exp. In Foreign Currencies*	Dividend Paid in Foreign Currency	No. of Non-Resident Share Holders	No. of Shares Held by Non-Residents	Share Capital Held by Non-Residents	Gross Dividend to Non-Residents	Return to Non-Resident Bond Holders	Interest-Free Loans from DAIDC
1	2	3	4	5	6	7	8	9	10
1989-90	663165	3873	-	-	-	-	-	-	-
	-	-							
1990-91	1340800	26701	-	-	-	-	-	-	-
	102.18%	-31.49%							
1991-92	341221	141712	-	NA	NA	NA	-	-	-
	-74.55%	430.74%							
1992-93	1014093	233326	320625	4	1740000	17400000	2088000	-	-
	197.20%	64.65%	-						
1993-94	1984478	322165	1080000	4	2580000	25800000	2020000	-	31360000
	95.69%	38.08%	236.84%		48.28%	48.28%	3.26%		
1994-95	5542236	490184	1110000	7	2580300	25803000	2838330	-	15650000
	179.28%	52.15%	2.78%		0.01%	0.01%	40.51%		-49.56%
1995-96	6623836	536928	1795200	7	2580300	25803000	3096360	-	15650000
	119.52%	9.54%	61.73%		-	-	9.09%		
1996-97	9404438	657543	1958400	7	2731600	27316000	NA	NA	15650000
	141.98%	22.46%	9.09%		5.86%	5.86%			
1997-98	6703988	274628	2620266	6	2691600	26916000	NA	NA	-
	-28.71%	-58.23%	33.80%		-1.46%	-1.46%			
1998-99	4625983	366830	2629560	NA	NA	NA	NA	3147317	-
	-30.99%	33.57%	0.36%						

Note : 1. All% refer to Growth Percentage.

* On Foreign Business Tours.

5.2.3 Managerial Performance

The operational objective of AFHL Management is application of Islamic financial principles for profit earning. So far AFHL has been successful in attaining this objective. The Management has been proficient enough to raise Funds from non-Deposit sources like Equity and interest-free loans from individuals as well as institutions, residential as well as non-residential. It has also innovatively utilised the ***Halal*** Islamic Bonds for raising capital. The Management is also mobilising Funds through controversial back-to-back lease finance arrangement with Commercial Banks, which its M.D. Mr. M.S. Oomer asserts, is ***shariah*** compatible, though AFHL does not have a regular ***Shariah*** Advisory Board or penal. The deployment of Funds by AFHL is however in accordance with Islamic financial principles.

A Board of Directors that includes representatives of DAG, Housing Development Finance Corporation Ltd.. and Infrastructure Leasing and Financial Services Ltd. in view of their Shareholdings, manages AFHL. The Management of AFHL is the only IIFC to have benefited from collaborations with Indian and foreign financial institutions. AFHL has 8 branches operating in different parts of country (Annex No. 5.2) besides its head quarters at Mumbai. It has a total staff of about 70, headed by a Managing Director, a General Manager, Financial Manager and five other Managers who are well qualified as well as Field Inspectors who monitor the PLS Trust Loans advanced to small businessmen and recover dues from them. The staff is paid satisfactorily, though no special training is arranged for them. The Management does think that IFIs can be a viable alternative to interest based commercial financial institutions. They are very much aware of MNCs entering the field of Islamic finance in the sub-continent. They have been expanding their operations by opening new branches in different Indian states. So far they have not planned formation of a strong Federation of IFIs. They do have financial and technical links with foreign IFIs though recently these links have been reduced. Like other IIFCs they too mandatorily invest in RBI approved Bonds and Securities to maintain SLR and keep their Surplus and Reserves in Commercial Banks. The Management of AFHL has been by and large successful in profitable application Islamic financial principles within the limitations imposed by Indian NBFCs Act. and RBI regulations. AFHL has secured a Credit Rating of 'MA' i.e. adequate safety and official SLR of over 50% in 1998-99. AFHL is one of the very few IIFCs to have obtained RBI registration as per the new Prudential Norms of 1997-98.

5.2.4 Problems and Prospects

AFHL is the most successful, proficient and profitable IIFCs of India. It has handsome Net Return Ratios of over 30% even during the period of increased RBI regulations and economic recession from 1996-97 to 1998-99. It has also good SLR and Reserves to meet contingencies. However whether it is also the most Islamic is to be determined by a formal Shariah Board or Shariah Audit. The Debt / Equity ratio of AFHL is also very high and increasing which is not in keeping with the spirit of Islamic Finance.

Transparency continues to be the major problem with AFHL also. Even after more than two years of persistence they did not give the data as per concerned Survey Questionnaire schedules. At last they were good enough to give the copies of their 'Annual Report and Accounts' for the entire decade from which the above analysis have been made. Costs continue to be another grave problem, the seriousness of which is not realized because of comparatively higher Returns.

Non-Performing Assets are another grave area. The AFHL is proud of the fact that it is helping small Muslim traders of unorganised market sector, with *Mudarabah* Trust Loans to help them stand on their own feet. Whereas the fact is total Trust Loans are on the decline from around Rs. 313 lakh in 1993 to just Rs. 80 lakh in 1998-99 (Column 10. Table No. 5.7). It shows that AFHL too is taking the easy way out by reducing the commitment to *Mudarabah* finance i.e. Trust Loans because of rising outstanding and doubtful loans, rather than improving the project appraisal and monitoring of such loans. The cause of Islamic finance cannot be served by neglecting PLS financing and promoting mainly rent earning finance. Till this trend is reversed

AFHL and other IIFCs cannot do justice to Islamic Finance nor succeed in giving an alternative to the Conventional Financing / Banking system. Another problem area of AFHL that needs to be closely watched is rapidly increasing Debt / Equity Ratio from 78.4% in 1993-94 to 162.27% in 1998-99.

We may conclude our critical analysis of AFHL by stating the fact that bulk of its Capital comes from Non Residents, substantial portion of earnings also go to them. With increased efforts both at domestic and foreign fronts and bigger collaborations AFHL has the potential to utilise the ongoing economic and financial reforms to put Islamic finance on the portfolios of Indian Finance Houses. Last but not the least it must have a relook at the "back to back lease finance" arrangement with interest based Union Bank to determine its adherence to the letter as well as spirit of Islamic finance, if it desires to be called truly interest-free Islamic Financial Institution.

5.3 Al-Ameen Islamic Financial And Investment Corporation (Ltd) Bangalore 1986-1999

Al- Ameen Islamic Financial and Investment corporation Ltd. (AIFIC) started its operations at Bangalore in June 1986. It is one of the earliest Islamic Investment and Financial Companies (IIFCs) registered under Company's Act. It claims to be the largest IIFC of India. It had 24 branches till 1997-98, now the branches have been reduced to 14 in 1998-1999. AIFIC is established by the famous Al-Ameen Educational Group of Bangalore, which also runs Amanath Urban Co-operative Bank Ltd. that has been granted Scheduled Bank status recently. The founder of Al-Ameen Group Dr. Mumtaz Ahmed Khan is the Chairman and Managing Director of AIFIC. Earlier Mr. K. Rehman Khan the M.P and Chairman of Al-Ameen Educational Society was its Managing Director. AIFIC was growing steadily till 1997-98 when RBI's new Prudential Norms hit it hard. It is yet to comply with the new norms and secure RBI registration.

5.3.1 Economic Performance

Fund Mobilisation :

AIFIC has been mobilising its Funds mostly through Share Capital, Deposits, advances received against various Schemes, Lease Deposits, Reserves and Surplus. The authorised Share Capital of AIFIC has increased from Rs. 100 lakh in 1985-86 to Rs. 2000 lakh in 1998-99. The subscribed Share Capital had sluggishly increased from Rs. 7.26 lakh in 1985-86 to Rs. 131.79 lakh in 1996-97. It was only between 1997-99 under the compulsions of minimum Capital Adequacy Norm of 18% that AIFIC was compelled to raised its paid up Share Capital to Rs. 106.6 lakh, to be 47.2% of Total Funds (Table No. 5.14). But it was yet to get a satisfactory Credit Rating; hence it was not supposed to accept public Deposits as per the new NBFC Act.

AIFIC has formulated several Schemes to attract Deposits. *Mudarbah* Deposits are Fixed Deposits in multiples of Rs.. 1000 for one year to five yeaRs. It carries highest Bonus of 13.5% and those who keep the Deposits for five years are assured of 3% additional Bonus. It is expected to attract NRI Funds as well. *Taufir* Deposit Scheme is for attracting petty depositors who can Deposit a minimum of Rs. 10 on daily basis, Rs. 75 on weekly basis or Rs. 300 on monthly basis, for a minimum period of one to four yeaRs. *Toufir* Deposits may be purpose based e. g. *Iqra* (education) Deposits; *Aqad* (marriage) Deposits; *Tohfa* (gift) Deposits; *Haj* or *Umrah* Deposits. All such depositors are eligible to get an interest-free loan of up to 25% of their Deposits after one year and a share in the profit in the form of 10% Bonus. *Ashiana* (housing) Deposit Scheme is in multiples of Rs. 1000 for a period of 5 to 8 yeaRs. After completion of 3 years the depositor can borrow double the amount of his Deposit or up to a maximum of Rs. 2 lakh.

Unfortunately Scheme wise data of Deposit mobilisation is not provided by AIFIC. Hence the assessment of Deposit Schemes and their potential can not be effectively determined. The total Fixed Deposits have increased from Rs. 45.28 lakhs in 1986-87 to Rs. 1240.91 lakh in 1997-98, an increase by over

Al Ameen Islamic Financial And Investment Corporation Ltd. Bangalore
Year-wise Fund Mobilisation 1985-86 to 1998-99

Table No. 5.14 **(In Rs.)**

Year	Authorized Share Capital (Lakhs)	Subscribed Share Capital	Fixed Deposit	Reserves And Surplus	Advances against Schemes	Lease Deposits	Total Working Capital
1	2	3	4	5	6	7	8
1985-86	100	1726450	-	8606	-	463500	2198562
		78.50%		0.40%		21.10%	
1986-87	100	4334200	4528126	71528	6942413	2739129	18615396
		23.20%	24.30%	0.40%	37.30%	14.70%	746.70%
1987-88	250	4708000	8084426	162020	9381151	2508383	24843980
		12.10%	33%	0.70%	37.80%	10.10%	33.50%
1988-89	250	4822000	10127626	221802	8840817	3596359	27608604
		17.50%	36.70%	0.80%	32.00%	13.00%	11.10%
1989-90	250	4901700	15636437	277961	10598551	4500533	35915182
		13.60%	43.50%	0.80%	29.50%	12.50%	30.10%
1990-91	250	5262700	26733941	543170	194088871	5152349	57101031
		9.20%	46.80%	0.90%	340%	9.00%	58.90%
1991-92	250	6333200	41591146	715743	24911514	5495210	79046813
		8.00%	52.60%	0.90%	31.50%	6.90%	38.40%
1992-93	250	7033700	39064042	884421	25232106	14967461	87181730
		8.10%	44.80%	1.00%	28.90%	17.20%	10.30%
1993-94	500	9693500	56780869	1053495	39933445	11747072	119208381
		8.10%	47.60%	0.90%	33.50%	9.9	36.70%
1994-95	500	10822500	92373930	1198794	46942971	7151288	158494483
		6.80%	58.30%	0.80%	29.60%	4.50%	32.90%
1995-96	500	12255000	98900593	1417868	57035603	8302145	177911209
		6.90%	55.60%	0.10%	32.10%	4.70%	12.30%
1996-97	500	13179500	97129060	1426269	56949097	8717876	177401802
		7.40%	55.00%	0.80%	32.10%	4.90%	-0.30%
1997-98	1000	52661500	124691361	1426269	56815251	10054239	245048620
		21.50%	50.60%	0.60%	23.20%	4.10%	38.10%
1998-99	2000	106625000	61362665	1426269	53437717	2788680	225640331
		47.20%	27.20%	0.60%	23.70%	1.20%	-7.90%

Note : % in Column is groth percentage. All the other percentages are those of column 8.

27 times during 12 yeaRs. However due to non acquisition of necessary Credit Rating and for non fulfillment of Capital Adequacy Norms it had to reduce the Fixed Deposits to Rs. 613.63 lakh in 1998-99 (Table No. 5.14). Infact the future Deposit mobilisation efforts of AIFIC rest on its compliance of Prudential Norms prescribed for NBFCs by RBI and its registration with RBI.

Advances received against various Schemes have formed next highest source of total Funds, which have increased from Rs. 69.42 lakh in 1986-87 to Rs. 56.95 lakh in 1996-97 and declined to Rs. 54.44 lakh in 1998-99 on account of general decline in business and profitability. Lease Deposits received, as advance payments are the next important source of Funds. However its contribution to total Capital has gradually declined from 21.1% of the total in 1985-86 to just 1.2% in 1998-99, which indicates the declining nature of leasing business. Reserves and Surplus have generally formed less than 1% of total Funds. total Capital mobilised by AIFIC has increased from Rs. 21.98 lakh in 1986 to Rs. 2256.40 lakh in 1998-99.

Investment Pattern :

The investment pattern of AIFIC is broad based. Although it was initially classified by RBI as an Equipment Leasing Company, it has been deploying Funds in *Mudarabah* or Trust Financing, *Murabaha* or Cost plus financing, *Musharakah* or PLS Venture Financing besides *Ijra* or Leasing and *Ijara-wa-Iqtina* or Hire Purchase Investments. AIFIC is also investing in Equities of private Companies and Govt. Securities including UTI. AIFIC is also extending *Qard-e-Hassan* or interest-free loans mostly to its depositors. Leasing and *Murabahah* business accounts for bulk of the AIFIC Investments. Ijra Investments were over 60% of total Investments till 1989-90. However *Murabahah* Investments that were started in the year 1989-90 have gradually overtaken Leasing business e.g. by 1997-98 *Murabahah* dealings accounted for 55.8% where as Leasing accounted for only 21.6% of total Investments. However in 1998-99 Leasing had recovered to 33.64% and *Murabahah* had dropped to 32.2% (Table No. 5.15)

Under special Schemes Auto rickshaws, Cars and two wheelers, household consumer durables like Refrigerators, T.V.sets, Tape-recorders, VCRs, Washing-Machines, Mixies and Wet-Grinders, Type-Writers etc. are provided either on Higher Purchase or *Murabahah* basis, at generally 10% more than the Cost price i.e. recovered either in lump sum or agreed installments. Auto-rickshaw loans have gone down from over 15% in 1985-86 to just 0.1% of the total Investments in 1998-99. Vehicle loans started in 1986-87 have peaked to Rs. 8.46 lakhs in 1995-96 and declined to Rs. 3.12 lakhs in 1998-99. Housing loans commenced in 1989-90, have increased from Rs. 0.83 lakh to Rs. 32.80 lakh in 1995-96, but declined to Rs. 23.58 lakh in 1998-99. Housing loans form just over 1%, Auto-rickshaw and vehicle loans have formed less than 1% of total Investments. Bangalore's reputation in the 90's has changed from the Garden City to Auto-rickshaw City. AIFIC extended Auto-rickshaw loans worth Rs. 2.51 lakh in 1985-86, which peaked to Rs. 14.45 lakhs in 1989-90, but consistently declined to Rs. 0.30 lakh in 1998-99.

Trust Financing or *Mudarabah* Investments of AIFIC have been fluctuating from 14% to 45% of total Investments. In absolute terms *Mudarabah* Investments have increased from Rs. 28.31 lakh in 1985-86 to Rs. 371.74 lakh in 1998-99. *Musharakah* or PLS Investments of AIFIC have also fluctuated from 3% to 17% of the total. *Musharakah* Investments have increased from just Rs. 0.5 lakh in 1985-86 to Rs. 154.55 lakh in 1998-99. Investments in the Stocks of the Companies have generally formed less than 1% of Total Investments. Investments In Govt. Securities have increased from 4.3% in 1993-94 to 7.08% in 1998-99. The investments in Govt. Securities are mandatory for every NBFC to maintain SLR in India. These investments are made mainly in Indira, Kisan and Vikas Patrikas (certificates), S.B.I. Bonds, UTI etc. In addition AIFIC has Rs. 115.37 lakh in 1998-99 as cash in hand and Banks.

The so-called *Qard-e-Hassan* Loans are actually Deposit linked interest-free loans. Their share has been consistently going down from the high of 20.3% of total Investments in 1987-88 to 0.4% in 1998-99.An interest-free loan of Rs. 7.67 lakh from 21 branches of AIFIC gives an average of just 0.36 lakh per branch which is negligible. Total Investments of AIFIC have registered impressive growth from Rs. 16.22 lakh in 1985-86 to Rs. 2261.94 lakh in 1997-98 and declined to Rs. 2074.03 lakh in 1998-99 because of recession and

Year-wise Distribution of Investments 1985-86 to 1998-99
Al Ameen Islamic Financial And Investment Corporation Ltd. Bangalore

Table No. 5.15 (In Rs.)

Year	Lease or Ijara Investments	Cost plus or Murabahah Investments	Auto-Rickshaw Loans	Vehicle Loans	Housing Loans	Trust or Mudarabah Investments	PLS or Musharakah Advances	Interest Free Loans	Investment in Stock of Companies	Investment in Govt. Securities	Total Invest-ments	Cash in Hand & Banks
1	2	3	4	5	6	7	8	9	10	11	12	13
1985-86	1038195	-	251000	-	-	283060	50000	-	-	-	1622255	485225
	64.00%		15.50%			17.40%	3.10%					
1986-87	11134000	-	732816	705200	-	1349098	362046	2420480	-	-	16386594	2422015
	67.90%		4.50%	4.30%		8.20%	2.20%	14.80%			910.10%	399.20%
1987-88	14197675	-	650072	479622	-	3095443	1267113	4680615	-	-	2310427	1432154
	61.50%		3%	2.10%		13.40%	5.50%	20%			40.90%	-40.90%
1988-89	17257182	-	1058796	532137	-	3006340	1911693	3846793	-	-	25701248	2588400
	67.10%		4.10%	2.10%		11.70%	17.40%	15.00%			11.20%	80.70%
1989-90	17719102	192697	1445499	460290	83267	6198787	2310097	2072752	-	-	28172394	5373737
	62.90%	0.90%	5.10%	1.60%	0.30%	22.00%	8.20%	7.40%			9.60%	107.60%
1990-91	22246097	207260	865719	367804	341449	16660380	2921765	1506381	-	-	44195090	5102187
	50.30%	5.00%	1.90%	0.80%	1%	37.70%	6.60%	3.40%			56.90%	-5.10%
1991-92	25882825	4619815	512713	48318	598317	30747412	3054745	1519151	-	-	67374296	10436061
	38.40%	6.90%	0.80%	0.70%	0.90%	45.60%	4.50%	2.20%			52.50%	104.50%
1992-93	45810449	5119777	311086	602014	567117	22524098	8821146	1239051	-	-	84994738	8294356
	53.90%	6.00%	0.40%	0.70%	0.70%	26.50%	10.40%	1.50%			26.10%	-20.60%
1993-94	36436927	47082542	232191	528122	117944	10859407	3946125	1367838	250000	4595900	106477996	13838528
	34.20%	44.20%	0.20%	0.50%	1.10%	10.2	3.70%	1.30%	0.20%	4.30%	25.30%	66.80%
1994-95	41485403	56475109	131110	365286	2431933	19628178	4618933	1306659	568760	6369394	133380765	26534694
	31.10%	42.30%	0.10%	0.30%	1.80%	14.70%	3.50%	0.90%	0.40%	4.80%	25.30%	91.70%
1995-96	47922175	91169418	133739	846176	3279863	27805038	4394738	977130	1492850	11899164	189920291	19431522
	25.20%	48.00%	0.10%	0.40%	1.70%	14.60%	2.30%	0.50%	0.80%	6.30%	42.30%	-26.80%
1996-97	48591654	92192824	111473	7755825	2675000	28875002	5909261	856303	1243407	15499164	196729913	18280189
	24.70%	46.90%	0.10%	1.40%	1.40%	14.70%	3.00%	0.40%	0.60%	7.90%	3.60%	-5.90%
1997-98	48836844	126288698	115980	515395	3001331	29033639	1600000	653760	1243407	14904924	226193978	12748256
	21.60%	55.80%	0.10%	0.20%	1.30%	18.80%	0.71%	0.30%	0.50%	6.60%	0.60%	-30.30%
1998-99	69766798	66743382	30015	312378	2357765	37173675	15454841	767388	1243407	14678000	207403540	11536872
	33.64%	32.18%	0.01%	0.15%	1.14%	17.92%	7.45%	0.37%	0.60%	7.08%	-8.30%	-9.50%

Note : 1.% from Column 2 to 11 refer to percentage of column 12.
2.% in column 12 & 13 refer to growth percentage.

RBI's strict Prudential Norms. It means on an average each of the 21 branches of AIFIC is investing Rs. 99 lakh in 1998-99 (Table No. 5.15).

Costs:

Fixed Costs of AIFIC have fluctuated from 1% to 73% and Variable Costs have varied from 27% to 99% of Total Costs. Total Cost of AIFIC has increased from Rs. 1.37 lakh in 1986 to Rs. 491.47 lakh in 1997-98, though declined slightly to Rs. 434.59 lakh in 1997-98. Total Cost as percentage of Funds has increased from 6% to about 20% and as percentage of total Investments increased from 8% to 21%. (Table No. 5.16). The increase in Costs is sharper after 1996-97. It is evident that the Variable as well as total Costs of AIFIC are much higher. As a result competitiveness of AIFIC is adversely affected. Bonus paid to depositors of AIFIC has reduced its profitability as its share has consistently increased from 13.44% of Variable Costs in 1986-87 to 69.32% in 1997-98 and declined to 51.47% in 1998-99. The productivity or income generation of AIFIC will however decide the ultimate reasonableness or otherwise of its Costs.

Income and Returns:

Lease rentals and Hire Purchase Income together have accounted for 60% to 80% of the Total Income of AIFIC. Income earned from *Murabahah*, Auto-rickshaw and Housing Investments have been clubbed together in Hire Purchase Income because most of these Investments are Hire Purchase based. However Higher Purchase Income data is available only from 1991-92. Hence Lease Income has accounted for as much as 85% of the total Income till 1988-89, subsequently though it has come down gradually to 57.3% in 1990-91, the fall in Lease Income after 1991 is very sharp, to just 13.9% in 1997-98. From 1993-94 to 1997-98 income from Hire Purchase has increased from 50% to 60% of total Income, but has gone down to 35.3% in 1998-99 (Table No. 5.17). The Gross Return from Leasing itself was satisfactory at 22% till 1992-93, but subsequently it has consistently fallen to 6.6% in 1998-99. Leasing has not earned satisfactory returns after 1993. Hire Purchase has been marginally better yielding with highest Gross Returns of 32.9% in 1996-97 (Table no 5.18).

Income from Venture Finance i.e. *Mudarabah* has contributed most after Leasing and Hire Purchase business, generally accounting for over 15% of total Income. Income from Vehicle Finance and Commission has gone down rapidly and consistently to less than 1% of total. The total Income of AIFIC has gradually gone up from Rs. 0.44 lakh in the first year of operations to Rs. 294.87 lakh in 1995-96, but gone down since then to Rs. 173 .31 lakh in 1998-99. Infact in the last 2 years of operations the Net Income has become negative. During the last 3 years from 1996-97 to 1998-99 no dividend has been paid to Shareholders, though generally 10% dividend has been declared in earlier years. General Reserves of AIFIC have also come down from 19.3% of total Income to less than 1% in 1995-96 and nil during the last three years. (Table No. 5.17)

Gross Return on total Capital has generally fluctuated from year to year from 13% to 18%, but gone down from 20.3% in 1985-86 to 7.68% in 1998-99. The Gross Return on total Investments have increased from 2.75% in 1985-86 to 20.38% in 1990-91, but declined gradually to just 8.36% in 1998-99. It means that the Returns from Investments of AIFIC have been comparatively higher during pre-liberalisation and pre-globalisation period till 1991 than during post-liberalisation and globalization period. A look at the Net Returns on Capital as well as Investments confirms this trend. Gross Return on Leasing or rentals also further confirm this trend. It does appear that AIFIC has not been able to thrive as well during the post economic liberalisation period of increasingly competitive market environment. If the Fixed Cost of AIFIC is added to the Total Cost, the Net Returns would further decline. Hence it is clear that the returns of AIFIC are not very satisfactory (Table No. 5.18). That is perhaps also the reason why it has not been able to get the required Credit Rating and registration by RBI so far.

Decline in returns of AIFIC is also due to mounting bad debts. No separate statistics is made available to judge the extent of NPAs of AIFIC. However it is clear from the increasing provision made for the doubtful and bad debts since 1989-90 that the incidence of bad debts is increasing (Table No. 5.18). The provision for bad debts has been increased from Rs. 1.99 lakh in 1990-91 to Rs. 84.55 lakh in 1998-99. Mounting doubtful

Year-wise Distribution of Costs 1985-86 to 1998-99
Al Ameen Islamic Financial And Investment Corporation Ltd. Bangalore

Table No. 5.16 **(In Rs.)**

Year	Salaries	Office Administration Costs	Bonus Cost of Deposits	Total Variable Costs	Fixed Costs	Total Cost	Total Cost as% of Capital	Total Cost as% of Investments	Variable Cost as% of Capital	Variable Cost as% of Investments
1	2	3	4	5	6	7	8	9	10	11
1985-86	18461	17487	-	35948	100776	136724	6.22%	8.43%	1.63%	2.22%
	51.35%	48.64%		26.29%	73.71%					
1986-87	514047	669306	183818	1367171	601511	1968682	10.58%	12.01%	7.34%	8.43%
	37.60%	48.96%	13.44%	69.45%	30.55%	1339.89%				
1987-88	749295	1275592	507966	2532853	100776	2633629	10.60%	11.40%	10.19%	10.96%
	29.58%	50.36%	20.05%	96.17%	3.83%	33.78%				
1988-89	609155	1045933	688366	2353454	267466	2620920	9.49%	10.20%	8.52%	9.16%
	25.88%	44.44%	29.25%	89.79%	10.20%	-0.49%				
1989-90	874153	1503226	1246381	3932943*	193883	4126826	11.49%	14.65%	10.95%	13.96%
	22.23%	38.22%	31.69%	95.30%	4.70%	57.46%				
1990-91	1202369	1987099	2355670	5857238*	351349	6208587	10.87%	14.05%	10.26%	13.25%
	20.53%	33.93%	40.22%	94.34%	5.66%	50.44%				
1991-92	1607346	2910710	3636633	8154689	2715934	10870623	13.75%	16.13%	10.32%	12.10%
	19.71%	35.69%	44.60%	75.02%	24.98%	75.09%				
1992-93	2160856	4273145	5422971	11856951	965515	12822466	14.71%	15.09%	13.60%	13.95%
	18.22%	36.04%	45.74%	92.47%	7.53%	17.96%				
1993-94	2557907	4774572	5043538	12376017	1203520	13579537	11.39%	12.75%	10.38%	11.62%
	20.67%	38.58%	40.75%	91.14%	8.86%	5.90%				
1994-95	3175406	6443603	5877259	15496268	2677390	18173658	11.47%	13.62%	9.78%	11.62%
	20.49%	41.58%	37.93%	85.27%	14.73%	33.83%				
1995-96	4485464	10393421	8228090	23106975	3862614	26969589	15.16%	14.20%	1[illegible].99%	12.17%
	19.41%	44.98%	35.61%	85.68%	14.32%	48.40%				
1996-97	4926846	7521889	15063209	27511944	1944845	29456789	16.60%	14.97%	15.51%	13.98%
	17.91%	27.34%	54.75%	93.40%	6.60%	9.22%				
1997-98	6602174	8287633	33650912**	48540719	606110	49146829	20.06%	21.73%	19.81%	21.46%
	13.60%	17[illegible]7%	69.32%	98.77%	1.23%	66.84%				
1998-99	6960848	84[illegible]892	16392644	31847384	11611746	43459130	19.26%	20.95%	14.11%	21.44%
	21.86%	26[illegible]7%	51.47%	73.13%	26.72%	-11.68%				

Note : 1.% from Column 2 to 4 refer [illegible]o percentage of column 5.

2.% in column 5 & 6 refer to percentage of Column 7.

3.% in Column 7 refer to Growth Percentage.

4. * It includes lease cancellation Losses.

5. ** Inclusive of Mudaraba Bonus.

Al Ameen Islamic Financial And Investment Corporation Ltd. Bangalore, Year-wise Distribution of Income & Profits 1986-1998

Table No. 5.17

(In Rs.)

Year	Lease Rentals	Hire Purchase Income	Income From Vehicle Finance	Commission	Income From Venture Finance	Miscellaneous Income	Total Income	Net Income	Deprecia-tion	Tax On Profit	Net Profit	Dividend	General Reserve
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1985-86	19497	-	11362	6877	6818	-	44554	8606	-	-	8606	-	8606
	43.80%		25.50%	15.40%	15.30%			19.30%			19.30%		19.30%
1986-87	1339776	-	164099	129000	573134	250733	2456742	1089571	715649	57000	316922	254000	62922
	54.50%		6.70%	5.20%	23.30%	10.20%	5414.08%	44.30%	29.10%		12.90%	10.30%	3%
1987-88	3913629	-	247800	-	187271	90843	4439543	1906690	1266020	111000	529670	440000	89670
	88.20%		6%		4.20%	2.10%	80.71%	43%	28.60%		11.90%	9.90%	2.00%
1988-89	3440066	-	136338	76312	245499	142239	4040454	1687000	1199057	88000	399943	342000	57943
	85.00%		3.40%	1.80%	1.90%	3.50%	-9.90%	41.80%	29.70%		9.90%	8.50%	1.40%
1989-90	4486734	-	424155	20597	770596	28525	5730607	1797664	1740587	10300	46777	-	46777
	78.30%		7.40%	0.40%	13.40%	0.50%	41.83%	31.40%	30.40%		0.80%		0.80%
1990-91	5162355	-	338474	10215	2614635	882294	9007973	3150735	1923264	1427233	1027709	762500	265209
	57.30%		3.80%	0.10%	29%	9.80%	57.19%	35.00%	21.30%		11.40%	8.50%	2.90%
1991-92	5712845	952642	215432	82656	4676162	167725	11807502	3652813	2333960	1900000	1034085	865000	169085
	48.40%	8.10%	1.80%	0.70%	39.60%	1.40%	31.08%	30.90%	19.80%		8.80%	7.30%	1.40%
1992-93	10380495	945478	189602	34009	4456255	285958	16291797	4434846	3403868	284768	8409788	675000	165978
	63.70%	5.80%	1.20%	0.20%	27.40%	1.80%	37.98%	27.20%	20.90%		5.20%	4.10%	1.00%
1993-94	4406581	9122403	187017	21952	1757712	589320	16084985	3708968	2290650	484000	934318	780000	154318
	27.40%	56.70%	1.20%	0.10%	10.90%	3.7	-1.27%	23.10%	14.20%		5.80%	4.80%	1.00%
1994-95	456551	1180511	272337	24170	2357294	1420890	20536353	5040085	3687718	193000	1159367	1020000	139367
	22.80%	57.50%	1.30%	0.10%	11.50%	6.90%	27.67%	24.50%	18.00%		5.60%	5.00%	0.70%
1995-96	5648902	14835173	262530	45503	7144738	1550943	29487789	6380814	4410709	610000	1360105	1150000	210105
	19.10%	50.30%	0.90%	0.20%	24.20%	5.30%	43.59%	21.60%	15.00%		11.60%	3.90%	0.70%
1996-97	5752179	15773703	88907	37768	4561324	2981683	29195564	1683620	4329623	359156	-3005159	Nil	Nil
	19.70%	51.00%	0.30%	0.10%	15.60%	10.20%	-1.00%	5.80%	14.80%		-10.30%		
1997-98	3225875	14096149	-	32311	3608430	231729	23280057	-25260662	4904893	6211631	3637787	Nil	Nil
	13.90%	60.50%		0.10%	15.50%	1000.00%	-20.27%	-108.50%	21.00%		-15.60%		
1998-99	4622388	6124197	-	34076	2856553	3694504	17331717	-14515667	5895646	9145852	29557165	Nil	Nil
	26.70%	35.30%		0.20%	16.50%	21.30%	-25.56%	-83.80%	34.00%		170.50%		

Note : 1.% from Column 2 to 7 and 9, 10, 12, 13, 14 refer to percentage of column 8.

2. Net Income I = Total Income - Variable Costs.

3.% in Column 8 refers to Growth Percentage.

Year-wise Returns Al Ameen Islamic Financial And Investment Corporation Ltd. Bangalore 1986 to 1998-99

Table No. 5.18 **(In Rs.)**

Year	Gross Returns on Capital (%)	Gross Returns on Investment (%)	Net Return* on Capital (%)	Net Return* on Investment (%)	Gross Return on Leasing (%)	Gross Return on H P Income	Provision For Bad Debts	Net Income II*	Net Assets
1	2	3	4	* 5	6	7	8	9	10
1985-86	20.3	2.75	0.4	0.53	1.9	-	-	-92170	1138971
1986-87	13.2	15	5.85	6.65	12	-	-	488060	11191498
									882.60%
1987-88	17.99	19.21	7.68	8.25	27.6	-	-	1805914	10989767
								270.02%	-1.81%
1988-89	14.63	15.72	6.11	6.56	19.9	-	-	1419534	14853809
								-21.40%	35.16%
1989-90	15.96	20.34	5.01	6.38	25.3	-	-	1603781	14235425
								12.98%	-4.17%
1990-91	15.78	20.38	5.52	7.13	23.2	-	199762	2799368	17264375
							0.45%	74.55%	21.28%
1991-92	14.94	17.53	4.62	5.42	19.9	20.6	249768	936879	21476183
							0.37%	-66.54%	24.40%
1992-93	18.69	19.17	5.09	5.22	22.7	18.5	135000	3469331	38945510
							0.15%	270.31%	81.34%
1993-94	13.49	15.11	3.11	3.48	12.1	19.4	290000	2505448	28505653
							0.27	-27.79%	-27.81%
1994-95	12.96	15.4	3.18	3.78	11.2	20.9	175000	2362695	30623251
							0.13%	-5.70%	7.43%
1995-96	16.57	15.53	.3.59	3.36	11.8	16.3	475000	2518200	36511928
							0.25%	6.58%	19.23%
1996-97	16.46	14.84	0.95	0.86	11.8	32.9	-	-261225	34610058
								-110.37%	-5.21%
1997-98	9.5	10.29	-10.31	-11.17	6.6	11.2	5627296	-25866772	30260551
							2.49%	-9802.10%	-12.57%
1998-99	7.68	8..36	6.43	-7	6.6	9.2	8454938	-26127413	46580387
							4.08%	-1.01%	53.93%

Note : 1. * Net Return = Gross Income - Variable Costs
2. ** Net Income 11 = Gross Income - Total Cost.
3.% in Column 9 & 10 refer to Growth Percentage.
4.% in Column 8 refers to Percentage of Total Investments.

and bad debts signifies lack of adequate and proficient pre as well as post-finance monitoring systems in AIFIC, which has also been pointed out by its auditors. The problem of bad debts and NPAs is another hurdle in the way of AIFIC's registration by RBI.

Generally AIFIC has distributed 10% dividend to its Shareholders. However during last 3 Years of its operations from 1996-97 to 1998-99 it has not declared any dividend because of the losses incurred during this period. The Net Rate of Return on Capital as well as Investments is negative for the last 2 years. Even for 1996-97 the Net Rate of Return on Capital as well as Investments is less than 1% . If Fixed Costs are also deducted from the total Income, Rate of Return will be negative for all the last three years of AIFIC (Column 9 Table No.5.18). The total losses of AIFIC during the last three years are much higher at Rs. 14.22 Lakh in 1996-97, Rs. 320.78 Lakh in 1997-98, and Rs. 352.73 Lakh in 1998-99. The book losses shown by the AIFIC without including Fixed Costs are Rs. 30.05 lakh in 1996-97, Rs. 363.77 lakh in 1997-98, and Rs. 295.57 lakh in 1998-99.

5.3.2 Social Performance

Since no statistics about, composition of depositors and beneficiaries of AIFIC is provided by the Management, it is not possible to assess its social performance effectively. However like most of the other IFIs of India, AIFIC is also striving to implement Islamic financial principles for the economic up-liftment of Indian Muslims. AIFIC is the largest Islamic Financial Company, truly all India in nature with its 24 Branches. Which have nor declined to 14. However the fact that same Al-Ameen Group has also promoted an interest based Amanath Urban Co-operative Bank that is being managed more proficiently and successfully has diluted the efforts and impact of AIFIC. Till recently the Head offices of both Amanath Urban Co-operative Bank and AIFIC were maintained on different floors of same building; as if interest money was kept in one pocket and interest-free money was kept in another pocket of the same shirt!

5.3.3 Managerial Performance

AIFIC is governed by its Board of Directors, under the guidance of a *Shariah* Board comprising of eminent Islamic scholars. It has over 200 employees, about 35 of who are working in its head office located in a posh new building in Bangalore and 14 branches spread all over India (Annex 5.3). Some training programmes are arranged for the staff. The staff of AIFIC is comparatively well paid. The Management of AIFIC is aware of multinationals entering the field of Islamic Finance. They are receiving adequate co-operation from *Ulemas*, Muslims, non-Muslims. Better understanding and co-operation from RBI officials is desired. Efforts have been made by the Management of AIFIC to approach Govt., Ministry of Finance and R.B.I. as well as IDB for recognition as IFI of India. The stated priorities of AIFIC are:

i. Translate Islamic principles into socio-economic reality with systems that completely eliminate exploitation, speculation and unethical practices.
ii. Inject money \ assets in the productive process through the spirit of enterprise.
iii. Promote socio-economic development among the weaker sections of society.
iv. Encourage entrepreneurship, industry and commerce, thus enlarging the base of ownership by providing opportunities and expertise for self-employment and generation of employment opportunities.
v. Discharge social responsibility as a finance agency meant to promote interests of budding industrialist with timely assistance of funds and expertise.
vi. Function as an efficient commercial organisation mobilising savings and investing in specific processes of capital formation there by stimulating flow of credit in the best manner possible for mutual benefit.

Without direct access to the relevant data of AIFIC it is not possible to properly assess the priority wise performance of AIFIC. However from the economic assessment made on the basis of Annual Reports it can be said that the Management of AIFIC is endeavoring to attain its priorities. However its inability to comply with the RBI's Prudential Norms does not reflect well on the proficiency of AIFIC's Management. The rates of Bonus or share in the profits paid to term depositors, and payment of Bonus even during years when the Company has made losses have further reduced public confidence in the AIFIC's claims of adherence to Islamic financial principles.

5.3.4 Problems and Prospects

AIFIC after doing fairly well till 1995-96 finds itself in serious problems since 1996-97. Infact its Branches, Funds, Investments and Income are found to be shrinking in 1998-99. Profits have disappeared and losses are mounting. Most of the problems of AIFIC have originated from the RBI restrictions on NBFC's. These relate to registration of NBFC's, their Credit Rating, Norms for Accounting Income, Capital Adequacy, Statutory Liquidity Ratio, classification of doubtful advances and provision for bad debts etc. These norms were formulated to safeguard the interests of depositors, because majority of the NBFCs were found to be risking public Deposits without raising and committing their Own Capital. These rules were strengthened and a new NBFC Act. itself was enacted in 1998. As per the new Act., Credit Rating and registration of Deposit accepting NBFCs have been made compulsory. A satisfactory Credit Rating itself is linked to Net Own Funds and a formula has been devised to decide the extent of public Deposits that an NBFC can accept. AIFIC has not been able to satisfactorily comply with the above Prudential Norms so far. The Shariah Advisory Board of AIFIC must also conduct a shariah Audit of its operations and issue necessary certificate to establish its Islamic credentials.

AIFIC is struggling to sort out its problems. To start with AIFIC had to reduce its Deposits and improve its Net Own Funds i.e. Share Capital to reach Capital Adequacy Ratio of 12% to 15%, which it has now achieved, though it is yet to get a satisfactory Credit Rating. Hence as per the norms it is not eligible to accept new Deposits. However AIFIC is an old Company which has invested its Term Deposits in long term projects, hence it has sought extension of time to refund Deposits. Meanwhile it is trying to raise its Share Capital, also by converting some of the Deposits. It is also endeavoring to improve internal pre and post-finance monitoring to improve recoveries and reduce the incidence of bad debts. AIFIC is in the process of restructuring and rebuilding itself.

Inspite of above problems we should not ignore the fact that AIFIC has successfully shown the practicability of Islamic financial principles even in a secular country like India. From 1985-86 to 1995-96 AIFIC was earning reasonable net profits. Only since 1996-97 it is incurring losses more due to rigidity of Indian financial laws and speeding economic reforms leading to globalisation. It will take some more experience and expertise for AIFIC and other IFIs of India to successfully utilise the growing process of globalisation for their own benefit. At the moment they are far too small and short of confidence. Their scale of operation is small, hence their average operational Costs are much higher and far from competitive. For instance the 24 Branches of AIFIC in 1997 did not have an average business of even Rs. 100 lakh each. AIFIC with its membership of Co-ordination Committee of Islamic Development Bank and IAIB'swould do better to enter into global collaborations with international Islamic Investment Companies and encash the opportunities presented by the ongoing process of globalization. It will have to however improve its proficiency and transparency, control Cost escalation and improve net profits.

5.4 Seyad Shariat Finance Ltd. Tirunelveli, 1987- 1999

Seyad Shariat Finance Ltd. (SSFL) of Tirunelveli in Tamilnadu was established during the financial year 1987-88. It took about two years for the Company to start working effectively. But gradually it has gathered momentum and become only the third IIFC of India to have succeeded in getting RBI registration as an

Equipment Leasing and Hire Purchase Finance Company. After the failure of AL Mizan Ltd. of Madras in early 90s it was not an easy task, but the tireless efforts of *Haji* T.E.S. Fathu Rabbani, the Chairman and Managing Director and his colleagues has tasted rare success in managing the affairs of SSFL. SSFL is striving to improve its Credit Rating from ICRA to a grade higher than MB+ that it has been granted in 1998-99.

Even this successful Company was reluctant to provide all the required data as per our Questionnaires. Ultimately it had given its Annual Reports from 1992-93 to 1998-99 and some relevant information, which has been utilised to analyse and present a fair picture of the functioning of SSFL.

5.4.1 Economic Performance

Fund Mobilisation:

The subscribed Capital of SSFL has increased to Rs. 306.45 lakh in 1998-99, forming 19.38% of total fund mobilisation. The Capital Adequacy Ratio of SSFL has increased from 8.33% in 1995-96 to 31.25% in 1998-99, as against the minimum of 15% prescribed by RBI, the Central Bank of India. It has played an important role in getting registration of SSFL by RBI. The total Deposits of SSFL have increased from Rs. 238.47 lakh in 1992-93 to Rs. 1392.70 lakh in 1997-98. In view of the Restrictions imposed by RBI with effect from 18.12.1998 NBFCs with less than Rs. 25.00 lakh Share Capital are not entitled to accept public Deposits. Equipment Leasing and Hire Purchase Finance Companies (ELHPFCs) without Credit Rating or below investment grade Rating are allowed to accept Deposits up to 1.5 times of Net Own Funds (NOF) or Rs. 1000.00 lakh whichever is lower subject to adherence of 15% Capital to Risk Weighted Asset Ratio (CRWAR). ELHPFCs with investment grade Credit Rating shall accept Deposits up to 4 times of NOF. Since SSFL had received Investment Grade Rating from ICRA, it was allowed to accept Deposits. However the existing Deposits of SSFL in 1998 were already in excess of the permitted limit. According to the Auditors Report, " The Company has public Deposits of Rs. 1132.08 lakhs as on 31st. March 1999, despite its Rating by ICRA as MB+ according to which the Company is entitled to hold only Rs. 632.52 lakh as Deposits."[37] SSFL has been accepting only Thrift Deposits as per contractual obligations since January 1999. Infact it has refunded some of the public Deposits and reduced the total Deposits from Rs. 1392.70 lakh in 1997-98 to Rs. 1132.07 lakh in 1998-99. The number of depositors has also reduced from 47667 to 43696. In view of Auditors remarks, the Company had refunded Rs. 476.00 lakh worth of Deposits till 30th June 1998.

The total Funds of SSFL including Share Capital, Deposits, Reserves and Balances have increased from Rs. 283.86 lakh in 1992-93 to Rs. 1581.36 lakh in 1998-99, a multiplication by over 5 times in seven years (Table No. 5.19). Public Deposits of SSFL have generally formed over 80% of total Funds till 1996-97. Subsequently due to revised RBI Norms, Deposits have been reduced to 71.59% of total Funds in 1998-99. Bulk of the depositors are actually sleeping partners in the business of SSFL, hence they are entitled to a share in profits and losses of SSFL. However it is observed that generally only profits are passed on to the depositors and not the losses. It is the Shareholders of IIFCs like conventional banks, who are made to bear the losses that are either included in the Costs or deducted from gross profits as per the prevailing accounting procedures and practices. Although in accordance with the Islamic financial principles the so-called Bonus or return given to depositors must be paid (deducted) out of profits or losses, on the basis of pre-determined agreement. However since Islamic accounting and auditing systems are not in vogue, SSFL and most of the IIFCs in India and else where are treating Bonus to the depositors as compulsory payment and including it in the Cost, which is contrary to the principles of Islamic Finance. The basis on which Bonus to depositors is determined needs to be properly classified as well as clarified, and it should be paid out of profits only, if any. Losses if any must also be deducted from the depositor's capital. SSFL has always paid Bonus to depositors. The average Bonus paid by SSFL to its depositors has varied from 8.22% to 11.95%

37. See Sayed Shariat Finance Ltd. Annual Report 1998-99, Annexture to the Auditors Report (x.iii) P 8 & 11

SEYAD SHARIAT FINANCE LTD. TIRUNELVELI
YEAR-WISE FUND MOBILISATION
1992-93 to 1998-99

TABLE NO. 5.19 **(In Rs.)**

Year	Share Capital	Deposits	Reserves	Total Funds
1	2	3	4	5
1992-93	2500000	23846673	2040130	28386803
	8.81%	84.01%	7.19%	
1993-94	400000	39733349	4022643	47755983
	8.38%	83.20%	8.42%	68.23%
1994-95	8440000	70867872	6782560	86090432
	9.80%	82.32%	7.88%	80.27%
1995-96	9285000	99287906	8647572	117220478
	7.92%	84.70%	7.38%	36.15%
1996-97	11445000	127662404	10935354	150042758
	7.63%	85.08%	7.29%	28.00%
1997-98	23710000	139270424	11278381	174258805
	13.61%	79.92%	6.47%	16.14%
1998-99	30645000	113207602	14284164	158136766
	19.38%	71.59%	9.30%	-9.25%

Note: 1.% in column no. 2, 3, 4, are the% of column no. 5
2.% in column no. 5 refers to growth%.

between 1992-93 and 1998-99 (Table No. 5.21). Doubts on the authenticity of Bonus to depositors also need to be clarified by IIFCs because the rate at which it is paid is akin to the rate of interest paid by conventional banks, to their time depositors.

Investment Pattern:

Most of the IIFCs of India are classified as Leasing and Hire Purchase Companies, because over 50% of their income is earned from these investments. SSFL is also classified by RBI as Equipment Leasing Hire Purchase Financial Company. The annual Leasing and Hire Purchase operations of SSFL have also generally accounted for over 50% of its total Investments, (Table No. 5.19). SSFL has been mostly leasing out equipments including, electrical fittings and vehicles. These investments have increased from 154.79 lakh in 1992-93 to Rs. 650.42 lakh in 1998-99. Investments in Shares of selected listed and unlisted Companies account for next highest share of total Investments, which have gradually increased from 14.68% in 1992-93 to 20.47% in 1998-99. Investments in Shares also include the 15% mandatory Investment in RBI approved Bonds and Securities to maintain SLR. SSFL has made these mandatory Investments in units of Unit Trust of India, Indira and Vikas Patrikas and Govt. Bonds. *Murabahah* Finance that is also referred to as Cost plus finance has been generally provided by most of the IIFCs of India. SSFL has been also providing *Murabahah* finance for vehicles and consumer durables. However over the years, *Murabahah* financing has declined after remaining steady at over 5% till 1996-97 to just 0.11% of total Investments in 1998-99. Trust Finance based on *Mudarabah* principle was provided by SSFL in good size in initial years, it has gradually declined from 17.77% in 1992-93 to 0.04% in 1996-97 and dried up in 1997-98. Lack of honest entrepreneurship in India as also elsewhere has so far led to failure of *Mudarabah* financing by IIFCs. Housing finance whereby SSFL provides finance for construction of customer's houses on rent sharing business, has also declined from 5.65% in 1992-93 to just 1.25% of total Investments in 1998-99. However Venture Finance wherein SSFL provides funds and participates in the capital, and the income is determined as a percentage of turn over; is another form of *Mudarabah* finance that has gradually increased from 6.46% of total Investments in 1993-94 to 20.05% in 1998-99. Inter-Corporate Deposits are only nominal at Rs. 23000 forming less than 1% of total Investments. SSFL is also buying and selling yarn for which it is earning some profits.

SSFL is providing interest and income free humanitarian *Qard-e-Hassan* loans as well, that have varied from 1% to 5% of Total Investments. Loans on Deposits are a facility to the depositors of SSF, they too are interest-free, they have also fluctuated between less than 1% to 5%. Various types of advances include advances for purchasing machinery and capital assets, Deposits with govt. departments, Income Tax, Sales Tax etc.. total Investments have increased from Rs. 309.48 lakh in 1992-93 to Rs. 1306.65 lakh in 1995-96 but declined to Rs. 1194.78 lakh in 1998-99. The decline in total Investment is perhaps because, actual figures of Investments made in buying and selling yarn are not available, hence not included in the total Investments. (Table No. 5.19)

Income:

SSFL has as many as 10 sources of income, which is evidence of its well spread investment pattern. Major source of income is of course Leasing and Hire purchase. Till 1995-96 the income from both is shown as Leasing Income, which has gradually increased from 67.40% in 1992-93 to 80.72% in 1995-96. After 1996-97 there is a drop in Income form Leasing to just 40.46% in 1998-99. During same period Income from Hire Purchase has increased from 10.64% to 32.71%. Together the Income from Leasing and Hire Purchase has accounted for over 70% of total Income. The decline in income from Leasing is because of economic recession and increased competition from other leading NBFCs. Venture Finance whose contribution has slightly declined from 9.14% in 1992-93 to 7.92% in 1998-99, even though in absolute terms it has increased from Rs. 6.73 lakh to Rs. 47.15 during same period contributes next highest income. Income from Housing finance and *Mudarabah* Investments has declined to less than 1%. The income from sale of yarn has fluctuated between less than 1% to more than 4%. Other Income whose contribution has increased from 4.35% in 1992-93 to 12.50% in 1998-99 comprises of Income from sale of Stocks and Assets, building rent, tax refunds and miscellaneous Income. Dividend Income from UTI and Shares of private Companies has been generally steady from 1% to 2% of total Income, though in absolute terms it was highest at

Rs. 8.73 lakh in 1997-98. It means that possibly the returns from investments in Share of private Companies have not been satisfactory. The Gross total Income of SSFL has increased steadily from Rs. 73.65 lakh in 1992-93 to Rs. 533.53 lakh in 1997-98. However after registering an impressive increase by 624.41% during seven years, the Gross total Income has declined to Rs. 495.36 lakh in 1998-99 mainly due to RBI enforced decline in Deposits, economic recession and increasing competition (Table No. 5.20).

Costs and Returns:

Bonus paid to depositors is actually their share in the profits earned by SSFL. The average rate of Bonus paid to depositors has increased from over 8% to over 11% during the seven-year period of 1992-92 to 1998-99. Bonus has formed the highest portion of total Costs, though it has declined from 65.95% of total Cost in 1992-93 to 43.72% in 1998-99. The staff expenses have increased from Rs. 2.69 lakh in 1992-93 to Rs. 24.11 Iakh in 1997-98 and declined to Rs. 18.84 lakh in 1998-99 which means the Management has tightened the belts of staff to tide over the economic recession and consequent decline in gross income. Administrative Costs of SSFL are much higher than the Personnel Costs because the annual losses caused by sale of Assets, sale of Stocks, and bad debts are also included. Administrative Costs have gradually increased from 10.63% in 1992-93 to 27.52% in 1998-99. Total Fixed Costs have fluctuated surprisingly between a low of 3.46% in 1997-98 to over 22% in 1994-95 and 1998-99. The average Fixed Costs over the years for a Company with 8 Branches and two Head Offices are however much lower. Total Costs of SSFL have increased from Rs. 37.31 Iakh in 1992-93 to Rs. 290.72 lakh in 1998-99. Total Cost would have been lower by 1.00% to over 15% if business losses were not including in it. Total Cost as percentage of total Capital has risen from 3.14% in 1992-93 to 18.36% in 1998-99. Total Cost as percentage of total Investments has risen more sharply from 12.05% to 24.33% during the same period. Investment Costs are comparatively higher because of reduction in total Investments during the last three years, perhaps due to on-going economic recession and also due to non-inclusion of yarn investments (Table No. 5.21).

Net Income or Net Returns of SSFL have impressively increased from Rs. 36.34 lakh in 1992-93 to Rs. 248.39 lakh in 1997-98 and gone down marginally to Rs. 204.64 lakh in 1998-99 due to economic recession and increased competition. Good Returns on Capital as well as Investment are reflection of SSFL's proficient and profitable operations. Net Returns on Capital have been above 12% during all the seven years, registering a high of 20.92% in 1995-96. Net Returns on Investment have increased from 11.74% in 1993-94 to 23.70% in 1997-98 and gone down to 17.13% in 1998-99. Increase in Investments and reduction in average Investment Cost can increase the Returns of SSFL further.

The loss absorption capacity and economic strength of SSFL is evident from the data available in (Table No. 5.22). Provision for Bad Debts and contingencies have increased from Rs. 0.57 lakh in 1992-93 to Rs. 16.57 lakh in 1998-99. As per the guidelines of new NBFC Act., SSFL is also maintaining Statutory Reserves to improve and maintain liquidity. Statutory Reserves have increased from Rs. 8.10 lakh in 1999-97 to Rs. 12.00 lakh in 1998-99. General Reserves of SSFL have increased from Rs. 1.50 lakh in 1992-93 to Rs. 6.00 lakh in 1998-99. Carried Forward Balances from Net Profit of SSFL have increased to Rs. 91.26 lakh in 1998-99. Adequate Cash in Hand and Banks has been maintained to meet the business needs. Total Fixed Assets of SSFL have registered impressive growth from Rs. 160.45 lakh to Rs. 739.13 lakh during the seven years of SSFL. A significant achievement of new regulatory NBFC Act. of 1998, is improvement in the Capital Adequacy Ratio of SSFL from just 8.33% in 1995-96 to 31.25% in 1998-99. Thereby SSFL has demonstrated its managerial adaptability and economic strength whereas majority of IIFCs of India have been crushed and closed by the new regulations.

Increase in taxes have been also responsible for higher Costs and reduced profitability of IIFCs. Taxes on SSFL income have increased from Rs. 0.15 lakh in 1992-93 to Rs. 12.25 lakh in 1998-99. The Dividend disbursed by SSFL has increased impressively from Rs. 2.50 lakh in 1998-99 to Rs. 26.90 lakh in 1998-99. The earnings and profitability of SSFL is second only to Al-Barr Al-Baraka Finance House Ltd., amongst all the IIFCs. No other IIFC of India has given so much profit to its Shareholders. Therefore we may say that SSFL along with AFH has been the most profitable and successful IIFC of India. However, SSFL has

YEAR-WISE DEPLOYMENT OF FUNDS, SEYAD SHARIAT FINANCE LTD. TIRUNELVELI 1992-99

Table No. 5. 20 **(In Rs.)**

Year	Lease Investment	Investment in Shares	Trust Finance	Venture Finance	Murab-Ahah Finance	Housing Finance	Human-itarian Loans	Loan on Deposits	Inter Corporate Deposits	Advan-ces	Total Funds Deployed
1	2	3	4	5	6	7	8	9	10	11	12
1992-93	15479165	453310	5500000	2000000	Nill	1749055	458165	662138	20000	536115	30947948
	50.02%		17.77%	6.76%		5.65	1.48%	1.75%	0.05%	1.73%	
1993-94	25395813	5886888	5000000	2003500	239926	1800349	654390	1821375	20000	2165620	47147861
	53.86%	12.49%	10.60%	4.25%	5.09%	30.82%	1.41%	3.86%	0.04%	4.59%	52.34%
1994-95	56490959	10229637	80000	11504500	7049900	1270139	1598305	4234310	23000	3212439	95693189
	59.03%	10.69%	0.08%	12.02%	7.37%	1.34%	1.67%	4.24%	0.02%	3.36%	102.96%
1995-96	75162761	17765005	50000	16538116	7512720	1400131	1601375	6543467	23000	4068953	130665528
	57.52%	13.60%	0.04	12.66%	5.75%	1.07%	1.23%	5.01%	0.02%	3.11%	36.54%
1996-97	74318599	22066735	50000	9605966	6591049	4151536	2379826	4154536	23000	3032417	126376664
	58.81%	14.46%	0.04	7.60%	5.22%	3.28%	1.88%	3.29%	0.02%	2.40%	3.28%
1997-98	49752614	24006207	Nil	21414730	1183016	2290819	1775681	2290819	23000	2063561	104800447
	47.47%	22.91%		20.43%	1.13%	2.19%	1.69%	2.19%	0.02%	1.97%	-17.07%
1998-99	65041966	24451287	Nil	23961319	136796	1496060	1758410	213150	Nil	2419205	119478193
	54.44%	20.47%		20.05%	0.11%	1.25%	1.47%	0.18%		2.02%	-88.57%

NOTE: 1.% in column no. 2 to 11 are the% of column no. 12.
2.% in column no. 12 refers to growth%.

Year-Wise Distribution of Income of Seyad Shariat. Finance Ltd. Trirunelveli 1992-99.

Table No. 5.21

(In Rs.)

Year	Lease Income	Hire purchase Income	Trust Finance Income	Venture Finance Income	Housing Finance Income	Murab-ahah Finance Income	Dividend Earned	Inter Corporate Deposit Bonus	Yarn Sale Income	Other Income	Total Income	*Net Income
1	2	3	4	5	6	7	8	9	10	11	12	13
1992-93	4964079	-	10432285	673496	-	-	209847	-	153666	320306	7364679	3633717
	67.40%		14.17%	9.14%			2.85%		2.09%	4.35%	.	49.34%
1993-94	7807887	-	1400000	827748	326073	761625	566645	1351	424600	736798	12852727	7144426
	60.75%		10.89%	1.44%	2.54%	5.93%	4.41%	0.01%	3.30%	5.73%	74.52%	55.59%
1994-95	17618883	-	1346053	1333158	308255	1638707	536040	4355	739660	1478635	25003746	13486150
	70.46%		5.32%	5.33%	1.23%	6.55%	2.14%	0.02%	2.96%	5.91%	94.54%	53.94%
1995-96	33285772	-	36552	2670587	243160	1405770	513329	5110	641326	2435197	41236803	24522979
	80.72%		0.09%	6.48%	0.59%	3.41%	1.24%	0.01%	1.56%	5.91%	64.92%	59.47%
1996-97	36619633	5402595	30129	3515198	279157	107583	653544	1334	288714	3880760	50778747	23069264
	72.12%	10.64%	0.06%	6.92%	0.50%	0.21%	1.29%	0.00%	0.57%	7.64%	23.14%	45.43%
1997-98	25141961	14053416	10088	4129295	174141	Nill	872784	1350	2581796	6388511	53353342	24839250
	47.12%	26.34%	0.02%	7.74%	0.33%		1.64%	0.00%	4.84%	11.97%	5.07%	46.56%
1998-99	20043826	16200704	Nill	4715447	160242	Nill	543152	6459	1695818	6170094	49535742	20463925
	40.46%	32.71%		7.92%	0.32%		1.10%	0.01%	-3.42%	12.50%	-7.16%	41.31%

Note : 1* Net Income = Total Income - Total Cost.

2 All% except Column no. 12 refer to percentage of total income.

3% in Column no. 12 refers to Growth%.

Year-wise Distribution of Costs of Seyad Shariat Finance Ltd. Tirunelveli 1992-99

Table No. 5.22 **(In Rs.)**

Year	Bonus on Deposits	Bonus as% of Deposits	Personnel Costs	Administrative Costs	Total Variable Costs	Fixed Costs	Total Costs	Cost as% of Capital	Cost As% of Invest.
1	2	3	4	5	6	7	8	9	10
1992-93	2460538	10.32%	268665	396500	3125703	605259	3730962	13.14	12.05
	65.95%		7.20%	10.63%	83.78%	16.22%			
1993-94	3347254	8.24%	436299	1126988	4910541	797760	5708301	11.95	12.11
	58.64%		7.64%	19.72%	86.02%	13.98%	52.99%		
1994-95	5906194	8.33%	814954	2209493	8930641	2586955	11517596	13.38	12.04
	51.28%		7.08%	19.18%	79.54%	22.46%	101.00%		
1995-96	9322395	9.39%	1359454	4078568	14760417	1953407	16713824	14.26	12.79
	55.78%		8.13%	24.40%	88.31%	11.69%	45.11%		
1996-97	14620550	11.45%	1811402	5878255	22310207	5399276	27709483	18.47	21.93
	52.76%		6.54%	21.21%	80.15%	19.49%	65.78%		
1997-98	16639714	11.95%	2410684	8478354	27528752	985340	28514092	16.36	27.21
	58.36%		8.45%	29.73%	96.54%	3.46%	2.90%		
1998-99	12709350	11.23%	1883995	8001235	22594580	6477237	29071817	18.36	24.33
	43.72%		6.48%	27.52%	77.72%	22.28%	1.95%		

Note: 1.% in column no. 2, 4, 5, 6, and 7 refer to% of column no. 8
2.% in column no. 8 refers to growth%

Year-wise Returns and Losses of Seyad Shariat Finance Ltd. Tirunelveli 1992-93 to 1998-99

Table No. 5.23 **(In Rs.)**

Year	Net Income *	Net Return on Capital	Net Return Invest.	Gross Return on Capital	Gross Return on Invest.	Loss on Sale of Assets	Loss on Sale of Invest.	Bad Debts	Total * Losses
1	2	3	4	5	6	7	8	9	10
1992-93	3633717	12.8	11.74	25.94	23.8	55449	-		55449
									11.00%
1993-94	7144426	14.96	15.15	26.91	27.25	99796	32867		132663
	96.61%					79.97%			3.32%
1994-95	13486150	15.67	14.09	29.04	26.13	304438	-		304438
	88.76%					205.06%			2.64%
1995-96	24522979	20.92	18.77	35.18	31.56	755384	25655		781039
	81.83%					148.12%			4.67
1996-97	23069264	15.38	18.25	33.84	40.18	1086616	11200		1097816
	-5.92%					43.84%	-56.34%		3.96
1997-98	24839250	14.25	23.70	30.62	50.91	2653364	81792	775356	3510512
	7.67%					144.18%	630.28%		12.31%
1998-99	20463925	12.94	17.43	31.32	41.46	2601727	172500	1730387	4504614
	-17.61%					-1.94%	110.90%	123.17%	15.49%

Note : 1. Net Income = Total Income - Total Cost
2.% in Column 2, 7, 8, 9 and 10 refer to Growth%.

Provisions, Profit, Dividend and Reserves of Seyad Shariat Finance Ltd Trunelveli 1992-99

Table No. 5.24 **(In Rs.)**

Year	Net Income	Provision for Bad Debts	Depreciation	Taxes	Net Profit	Dividend	Tax on Dividend	Statutory Reserves	General Reserves	Balance carried Forward	Fixed Assets	Cash in hand & Banks	Capital Adequacy Ratio%
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1992-93	3633717		2710087	15680	1513203	250590			150000	2140720	16045394	976310	
						14%							
1993-94	7144426		5467159	43234	2431793	449289			242000	4171923	26659164	25335636	
						16%							
1994-95	13486150	56659	12283649	60258	3681418	921492			368000	5872560	58768624	2142096	
						16%							
1995-96	24522979		23094727	184000	3197659	1358020			323000	7414572	79133802	2777114	8.33%
						16%							
1996-97	23069264	146461	28322079	1627550	4019000	1558380	155838	810000	400000	8492354	78718899	4631929	
						16%							
1997-98	24839250	973514	24851076	3216626	3009247	2424392	242439	610000	305000	7920381	54513483	7762361	20.36%
						16%							
1998-99	20463925	1657014	18599877	1224654	5992214	2690478	295953	1200000	600000	9126164	73913260	5959879	31.25%
						10%							

to improve its Credit Rating so as to be able to raise more Deposits and compete with efficient NBFCs of India.

5.4.2 Social Performance

SSFL is an economic and commercial Company rather than a social organisation. However it is also disbursing personal short-term interest and Cost free *Qard-e-Hassan* loans to deserving Muslims, mainly for medical, educational and employment visa purposes. Interest-free loans have increased from Rs. 4.58 lakh in 1992-93 to Rs. 23.80 lakh in 1996-97 and got reduced to Rs. 17.58 lakh in 1998-99 because of tight economic conditions, and delay in recovery of 25% to 30% outstanding interest-free loans.

Provision of interest-free loans for removal of human suffering should be the special feature of IIFCs not only in India but also else where in the world. *AL-adle* and *AL-ihsan* are the most important norms that Islam enjoins on Muslims in their dealings with otheRs. *AL-adle* requires Muslims to observe justice and fair play in their dealings with other people. *Al-ihsan* requires Muslims to sacrifice their resources to help others and build a caring society.

SSFL is serving over 40,000 depositors and beneficiaries through 9 offices (Annex 5.4) spread over Tamilnadu. Only 2% of the Shareholders of SSF are non-Muslims, none of who are women. Of the 98% Muslim Shareholders only 1% are women. 90% Deposit holders of SSFL are Muslims, 25% of whom are women and 65% men. Of the 10% non-Muslim Deposit holders, only 2% are women. Almost 100% receivers of interest-free loans are Muslims, only 1% of who are women. Of the Investment beneficiaries in Madras Branch in 1998, 40%, are non-Muslim men, 58% Muslim men, and 2% Muslim women. Thus perhaps SSFL is the only IIFC, which is benefiting non-Muslims also in substantial size. SSFL proposes to take special steps to reach out to more non- Muslims. This is a positive and necessary approach on the part of SSFL for harmonious development of IFIs in India.

5.4.3 Managerial Performance

SSFL being an NBFC, it is managed by a Board of Directors, led since inception by the Chairman and Managing Director Haji T.E.S. Fathu Rabbani and five other DirectoRs. Haji TES Fathu Rabbani himself is a successful businessman. He has assembled a good team of professionals. General Manager, Assistant General Manager, Branch Managers, Accounts Managers, Accountants and Recurring Deposit Collectors make up the 48 strong staff that manages offices of SSF. The remuneration paid to staff is moderate. The General Manager gets about Rs. 10000 per month. Managers get between Rs. 3000 to Rs. 6000. Accountants are paid between Rs. 2000 to Rs. 3000. *Shariah* experts are also paid a sum of Rs. 2000 to Rs. 2500. Managers and Accountants are imparted about 3 months training.

Unlike majority of the IIFCs of India SSFL has a *Shariah* Supervisory Board comprising of *Alims* with degrees in religious as well as modern education including professors and teachers. The *Shariah* Board advises SSFL on practical aspects of *Shariah* laws and supervises its operations, which is necessary to maintain Islamic character of business operations and win confidence of Muslims Society.

The main objectives of SSFL Management are helping economic growth of Muslims on the basis of Islamic financial principles, rid Muslims of interest based dealings and exploitation by moneylenders. Popularization of Islamic financial *Shariah* rules is also an important objective. The Management is satisfied that objectives are being attained. The Management is fully satisfied with the co-operation being extended by the Muslim masses to SSFL. They are also satisfied with the co-operation being received from *Ulemas*, Govt. officials and Non-Muslims. But they are not satisfied with the co-operation from RBI officials.

SSFL Management does not think that in their present state IFIs of India have potential to be an alternative to the traditional financial institutions of India. They are aware that MNCs like ANZ and Citibank are entering the field of Islamic finance in the sub-Continent. SSFL is willing to expand and diversify its operations using the on-going process of economic reforms and liberalisation. There is no proposal before them to form a Federation of IFIs of India. Nor are there any plans to establish technical, financial or training links with IFIs in other countries. They have approached RBI to allow interest-free financial dealings. They desire appropriate changes in the financial laws and RBI regulations to allow interest-free banking in India.

5.4.4 Problems and Prospects

In Management's view lack of permission to operate on interest-free basis is the main hurdle in the way of SSF and other IFIs in India. There are of course other problems facing SSFL. Problem number one is that SSFL has to urgently raise its financial management to qualify for higher Credit Rating like ICICI, IDBI and similar merchant Banking NBFCs, if it intends to really serve the cause of IIFCs in India. Unless SSFL earns higher Credit Rating it cannot mobilise additional Deposits nor expand its operations. In order to acquire a better Credit Rating SSFL will have to improve its recovery, reduce the incidence of Non Performing Assets (NPAs), maintain higher Liquidity Ratio, Reserve Funds and further increase Net Own Funds as well as healthy Assets. NPAs of SSFL have registered 129.24% increase from Rs.77.98 lakh in 1997-98 to Rs.178.76 lakh in 1998-99. The increase of NPAs in terms of receivables is from 7.45% to 15.75% during same period. The data regarding NPAs is not disclosed for all the years of SSFL although the Management admits it during interviews that over dues are about 30% of Investments. It is also observed that Branch staff of SSFL is looking after and responsible for business of some other firms as well, which will divide the attention and efficiency of staff. Financial Management of SSFL cannot be improved without bringing in more qualified and better paid staff, which is fully committed to the growth of SSFL only.

The SSFL and IIFCs of India cannot attain their objectives of popularising Islamic financial system, unless they develop new financial products based on Islamic financial *Shariah* principles to meet the growing and challenging requirements of modern financial transactions. This calls for Islamic Financial Engineering (IFE) at least by leading IIFCs like SSFL. The task of IFE can be assigned to *Shariah* Supervisory Board who in collaboration with senior experienced Managers can fulfill this responsibility. In essence it necessitates R & D functioning in leading IIFCs.

IIFCs of India including SSFL need to realise that transparency is necessary to strengthen them. By providing necessary data for research they cannot harm their objectives or interests, in fact shortcomings if any can be brought out by independent research alone, which if used positively can strengthen their functioning.

A general problem in India is non-availability of Islamically trained Accountants and Auditors. As a result traditional accounting, auditing and reporting methods are followed by IIFCs in India, including SSFL that far from establishing their Islamic character obscure and dilute it. For instance a perusal of Annual Reports of SSFL reveals that Bonus paid to its depositors is included in Administrative Costs rather than being deducted from Profits. More-over the basis of Bonus rate determination is also not reported. Thus Bonus is treated and reported like interest Cost paid to depositors by traditional Banks. The *Shariah* Supervisory Board of SSFL and other IIFCs need to pay closer attention to these problems.

Inspite of above problems that can be tackled in the coming years, SSFL has shown the necessary economic resilience to successfully out grow the new regulatory framework. SSFL has also surmounted the ongoing economic recession and continued to earn satisfactory net profits. During the eleven years of its operations it has become only the second most profitable IIFC in India after AFHL of Mumbai. SSFL is the beacon light, which has potential to establish and spread the domain of Islamic Financial system in India.

5.5 Al-Najib Milli Mutual Benefits Ltd. Najibabad 1990-98

Al-Najib Milli Mutual Benefits Ltd. (AMMBL) was established as a Public Ltd. Company in 1990, by the Management of Muslim Fund Najibabad, the largest interest-free lending Society of India. AMMBL received registration from the central govt. as Nidhi Company in 1993. A Nidhi Company is followed to mobilise Deposits and lend money at variable rates of return to its members, which is in conformity with the principle of Islamic finance. It is also exempted from complying with the Prudential Norms of RBI set for Financial Companies. The setting up of Nidhi Company was necessitated by the statutory limits on rapid Deposit growth of Muslim Fund Najibabad. Nidhi format was adopted mainly because it allowed the Management of MFN to continue its policies and practices. It is the first and the only Islamic Financial Company that has got itself declared as a Nidhi Company. AMMBL has grown to have 43 branches spread allover the country, though more concentrated in Uttar Pradesh (Annex.5.5).

5.5.1 Economic Performance

Fund Mobilisation:

AMMBL is performing most of the functions of Commercial Banks, it employs all the avenues of fund mobilisation that a Commercial Bank employs (Table No. 5.25). Since AMMBL had the advantage of functioning simultaneously from 17 of the Branches of MFN, in the first year of operation itself, its total Fund mobilisation in 1990-91 was Rs. 150.9 lakh, which had increased to Rs. 1423.30 lakh in 1997-98, an increase by more than 9 fold in just 8 years. Share Capital including Share application money has constituted just over 1% of total Funds. Deposits have constituted about 99% of total Funds raised. Spot Deposits that are collected by agents from door to door on daily or weekly basis have contributed over 70% of total Funds, though its contribution has gradually come down from 83.3% in 1990-91 to 70.5% in 1997-98, mainly because AMMBL has increased the Term Deposits to cover its Costs. The Term Deposits have gradually increased from 0.5% in 1990-1991 to 15.50% in 1997-98.

Loans and Investment:

AMMBL is providing various types of loans to its members. No specific effort is made to determine the purpose of loans. Loans are generally given for a period of one year to every one who can offer the required security. But mostly Gold Loans are availed by poor and economically backward Muslim as well as non-Muslim women for immediate family needs, including consumption and business needs. Loans given against the security of gold ornaments are called Gold Loans. They constitute largest chunk of total Loans, over 60%, followed by Property Loans, about 18%. Personal Security Loans are about 10%, Vehicle Loans between 2% to 5% of total Loans (Table No. 5.26). Loans are also given against the security of recurring and Term Deposits though they constitute less than 2% of the total. Dues including Service Charges have declined from 9.36% in 1992-93 to 3.86% in 1997-98. Bad debts have also declined from 9.07% to 2.88% during the same period. Together the NPAs have declined from over 19% to about 7%. AMMBL is keeping most of its idle funds in Fixed Deposits of Scheduled Banks and earning interest to meet the operational Costs. The Funds kept in these accounts have gradually increased from 50.37% in 1991-92 to 91.29% in 1997-98. Initially large amount of idle cash was kept in other Banks and IFIs that included Post Office Banks, Al-Ameen Islamic Finance and Investment Corporation Ltd. Delhi and various Branches of its own Muslim Fund itself. In fact bulk of these funds, over 90% were kept with Muslim Fund Najibabad. But funds kept in other Banks have come down drastically from 48.38% in 1991-92 to just 4.45% in 1997-98. Some Funds are also invested in Indira Vikas Patrika, about 3%, U.T.I about 0.5%, and SBI floating interest rate Bonds 0.1% (Table No. 5.27). Where as total Loans and Advances have formed 40% to 50% of total Funds; the placement of remaining Funds in various income earning activities have declined from over 58% in 1991-92 to 40.45% in 1997-98. The remaining funds are held in hand, in the 43 Branches of AMMBL.

YEAR-WISE FUND MOBILISATION OF AL-NAJIB MILLI MUTUAL BENEFITS LTD., 1990-91 to 1997-98

Table No. 5.25 (In Rs.)

year	Spot Deposit	Recurring Deposit	Saving Deposit	Term Deposit	Sundry Deposit	Total Deposits	Share Capital	Share Application Money	Loan Security	Total of 8+9+10	Total Funds
1	2	3	4	5	6	7	8	10	11	12	13
1990-91	12569318	10078	2170684	81440	11642	14843162	223994	22570		246564	15089726
	83.30%	0.07%	14.40%	0.50%	0.08%	98.39%	1.48%	0.15%		1.63%	
1991-92	35589831	801582	5718834	1819980	1076	43931303	441234	10730		451964	44383267
	80.20%	1.18%	12.90%	4.10%	0.02%	98.90%	1.00%	0.02%		1.02%	194.13%
1992-93	40753012	1576862	7537582	956	8488	53635444	572954	210		573164	54203608
	75.20%	2.91%	13.90%	0.20%	0.02%	98.90%	1.06%	0.04%		1.06%	22.12%
1993-94	48343138	2036646	870131	7853400	19109	66953611	701504	170		701674	67655285
	71.50%	3.01%	12.90%	11.60%	0.03%	98.90%	1.04%	0.03%		1.04%	24.82%
1994-95	64562928	1971062	11023698	13473454	19685	91050827	835724	14032		849756	91900583
	70.25%	2.14%	11.99%	14.70%	0.02%	99.08%	0.91%	0.15%		0.92%	35.84%
1995-96	82464594	877275	11131565	16746369	29371	112307370	1014374	9292	57202	1080868	113388238
	72.73%	1.66%	9.82%	14.80%	0.03%	99.05%	0.89%	0.08%	441.56%	0.95%	23.38%
1996-97	86515137	2414799	12261333	19148850	113110	120763014	1237874	5220	309784	1552878	122315892
	70.73%	1.97%	10.00%	15.66%	0.09%	98.73%	1.01%	0.04%	12.99%	1.27%	7.87%
1997-98	100375913	1983301	15308239	22084199	229085	140330785	1643714	5100	350048	1998862	142329647
	70.50%	1.39%	10.76%	15.50%	0.16%	98.60%	1.15%	0.03%		1.40%	16.36%

Note : 1. % in Column no. 2 to 12 refers to% of 13.

2. % in Column no. 13 refers to Growth%.

Year-wise Loan Disbursal of Al-Najib Milli Mutual Benefits Ltd. 1990-91 to 1997-98.

Table No. 5.26 **(In Rs.)**

Year	Gold Loans	Property Loans	Vehicle Loans	Loans Against Recurring Deposits	Loans Against Term Deposits	Personal Security Loans	Total Loans & Advances	Dues Including Service Charges	Bad Debts
1	2	3	4	5	6	7	8	9	10
1990-91	1114990	Nil	Nil	Nil	Nil	Nil	1114990	NA	NA
	100.00%						7.38%		
1991-92	1239192	3038334	396805	41175	88850	2674858	18606000	NA	NA
	66.20%	16.30%	2.13%	0.25%	0.48%	14.40%	41.90%		
1992-93	1831126	5492089	1031772	104255	263450	3420758	28623000	2679331	2595000
	63.97%	19.20%	3.60%	0.36%	0.92%	11.95%	52.80%	9.36%	9.07%
1993-94	24477714	6619680	1532780	102055	585050	3955171	37306000	2464783	2365000
	65.61%	17.24%	4.11%	0.27%	1.57%	10.60%	55.10%	6.61%	6.34%
1994-95	29231905	7821640	2501564	90537	657852	4531396	44834900	282283	2465000
	65.20%	17.45%	5.58%	0.20%	1.47%	10.10%	48.80%	0.63%	5.50%
1995-96	34485623	9831152	2776644	62715	449141	5796089	53401384	3360575	3700000
	64.50%	18.41%	5.20%	0.12%	0.84%	10.85%	47.10%	6.29%	6.93%
1996-97	42642403	12609975	1692135	168079	168079	7816757	66568840	3393050	378200
	64.06%	18.94%	2.54%	0.25%	1.15%	11.74%	54.40%	5.09%	5.68
1997-98	45226281	15222475	1469697	113542	113542	7491403	72922460	2816001	2100000
	62.03%	20.90%	0.16%	0.16%	1.40%	10.23%	51.20%	3.86%	2.88%

Note: 1. All% except Column no. 8 refer to % of Column no. 8.

2.% in Column no. 8 refers to% of Total Funds in Column no. 13 of Table no. 5.25.

Year-wise Fund Utilisation of Al-Najib Milli Mutual Benefits Ltd.1990-91 to 1997-98

Table No. 5.27 **(In Rs.)**

Year	Indira Vikas Patrika	U.T.I	SBI Floating Interest rate Bonds	Scheduled Banks	Other Banks	Tata Core Sector MF	N.S.C	Total Invest-ments	Total Invest-ments as% of Funds
1	2	3	4	5	6	7	8	9	10
1990-91	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	
1991-92	223000			13121846	12707778			26052624	58.70%
	0.86%			50.37%	48.78%				
1992-93	252600	100000		15708615	12664656			28725871	53.00%
	0.88%	0.35%		54.68%	44.09%			10.26%	
1993-94	922600	100000	50000	23504582	5943184			30520366	45.11%
	3.02%	0.33%	0.16%	77.01%	19.47%			6.25%	
1994-95	1189200	100000	50000	38990941	563586			40893727	44.50%
	2.91%	0.24%	0.12%	95.35%	1.38%			33.99%	
1995-96	1324900	300000	50000	48360326	910638			50945864	44.93%
	2.60%	0.59%	0.10%	94.92%	1.79%			24.58%	
1996-97	1524000	300000	50000	47171330	4789202		500	53835032	44.01%
	2.83%	0.56%	0.09%	87.62%	8.90%			5.67%	
1997-98	1729650	300000	50000	52851925	2564798	3500000	500	60996873	42.45%
	2.84%	0.49%	0.08%	86.65%	4.20%	5.74%		6.95%	

Note: 1.% in Column 2 to 8 refer to% of Total Investments.

2.% in Column 9 refers to Growth%.

Cost:

Total Costs of AMMBL have increased from Rs. 0.86 lakh in 1990-91 to Rs. 167.24 lakh in 1997-98. In the first year of operation Salary Costs were negligible, because of the free service of the MFN staff. Personnel Costs have gradually declined from 71.6% of total Costs to 25.84%. Bonus paid to depositors has fluctuated from year to year forming just 2.52% of total Costs in 1991-92 and 22.24% in 1994-95 and again only 9.67% in 1997-98, because of variable rate of Bonus paid to depositors in different years (Table No. 5.28). No Bonus is paid to Spot Depositors. Generally 4% Bonus is paid to Saving Depositors, 7% to 10% is paid to Recurring Deposit holders and 10% to 12% to the Term Depositors. total Cost as % of Funds has increased from 0.57% in 1990-91 to 11.75% in 1997-98. However total Cost as % of total Loan disbursal has increased from 7% to almost 23% during same period, which is very high and uneconomic. Part of the Costs is recovered from borrowers as Service Charges. However the Service Charges are fixed approximately by the Management on the basis of Costs incurred in previous years and charged at a flat rate for borrowers of different loans. They have increased this flat rate gradually from 10% to 18%, which is now similar to the rate of interest charged by Commercial Banks on consumption loans. Service Charges recovered as percentage of total Cost have varied from year to year. They were 65.74% in 1990-92 and 56.54% in 1997-98. The remaining Costs are met from other sources including Entrance Fees, Pass Book Charges, FDRs, and Miscellaneous Receipts. The Total Cost recoveries are generally 2% to 3% higher than the total Cost incurred, except in the last year of operation (Table No. 5.29).

Earnings and Assets:

Earnings of the AMMBL are only for meeting the operational Costs and creating necessary fixed assets. Service Charges and FDRs form over 95% of total earnings. Net Income is less than 1% of total earnings. No dividend has ever been paid. The meager amount of Net Profit after tax is always transferred to Reserve Fund for creation of Fixed Assets including office buildings (Table No. 5.29).

5.5.2 Social Performance

The MFN managed AMMBL is an outgrowth of strong socio-economic compulsions especially of U.P. Muslims in the post-independence era. Land reforms and poverty together with lack of education and partition of almost every family had driven majority of Muslim masses to abject poverty. As a result they were increasingly becoming the victim of village Moneylenders who were exploiting them to the hilt by charging exorbitant rate of interest and robbing poor victims of whatever assets they had, including their gold ornaments. This had led some Muslims to start initially interest-free lending Societies in the form of Muslim Funds like Muslim Fund Deoband and Muslim Fund Najibabad. The latter of which led to the establishment of AMMBL. AMMBL is endeavouring to provide exploitation-free loans to people irrespective of their gender, cast and creed.

Every member of AMMBL is invariably a Shareholder, a depositor as well as a debt beneficiary. Hence the total number of Shareholders, depositors and debt beneficiaries are more or less same, though the number of depositors and debt beneficiaries may be slightly different (Table No. 5.30). Of the total members, about 70% are Muslims and 30% non-Muslims. Out of every 70 Muslim members 40 are men 30 women. Out of every 30 non-Muslim members 10 are males and 20 females.

5.5.3 Managerial Performance

A Board of Directors consisting of 13 members elected by Shareholders manages AMMBL. They are supported by a General Manager, Branch Managers, Accountants, Clerks and attendeRs. Gen. Manager is paid about Rs. 7000 p.m. Managers get between Rs. 3500 to Rs. 6000. Accountants are paid Rs. 2000 to Rs. 3000 p.m. Clerks get about Rs. 1700 p.m. and attenders Rs. 1000. There are a number of pigmy collectors called *Taufir* Collectors who are paid 3.5% commission on their collections. Main objectives of AMMBL are promotion of interest-free banking on commercial level and help poor Muslims to get easy credit. The

Year-wise Costs And Recoveries of Al-Najib Milli Mutual Benefits Ltd. 1990-91 to 1997-98

Table No. 5.28 (In Rs.)

Year	Personnel Costs	As % of Col. 4	Bonus Paid to Depositors	as % of Col. 4	Total Cost	Service Charges Recovered	as % of Col. 7	Cost Met From Other Sources	as % of Col. 7	Total Cost Recovered	Costs Recovered % of Total Cost	Total Cost as% of Funds	Total Cost as% of Loans
1	2		3		4	5		6		7	8	9	10
1990-91	263	0.31%	16345	18.99%	86061	28618	32.86%	58476	67.14%	87094	101.20%	0.57%	7.72%
1991-92	940256	71.60%	33129	2.52%	1313739	888220	65.74	462839	34.26%	1351059	102.80%	2,96%	7.06%
	3574.11%		102.69%		1426.50%	3002.71%		691.50%		1451.27%			
1992-93	2454767	66.60%	342163	9.82%	3685341	2828181	74.42%	971622	25.57%	3799804	103.10%	6.80%	12.88%
	161.07%		938.82%		180.52%	218.41%		109.93%		181.25%			
1993-94	2359532	45.10%	1778508	22.50%	5232024	4493333	83.11%	913035	16.89%	5406369	103.30%	7.73%	14.02%
	(-)3.88%		244.43%		41.97%	58.88%		(-)6.03%		42.28%			
1994-95	3301263	46.90%	1674976	21.24%	7885738	5696189	69.52%	2497979	30.48%	8194169	103.90%	8.58%	17.59%
	39.91%		42.13%		50.72%	26.77%		173.59%		51.57%			
1995-96	3694714	37.50%	2058885	20.89%	9855236	6341039	62.18%	3857039	37.82%	10198078	103.50%	8.69%	18.46%
	11.92%		22.92%		24.98%	11.32%		54.41%		24.46%			
1996-97	4112892	37.10%	2450660	2.11%	11086244	6923619	60.22%	4574480	39.78%	11498099	103.70%	9.06%	16.65%
	11.32%		19.03%		12.49%	9.19%		18.60%		12.75%			
1997-98	7186917	25.84%	2689872	9.67%	16723676	8570246	56.54%	6586300	43.46%	15156546	90.60%	11.75%	22.93%
	74.74%		9.76%		50.85%	23.78%		43.98%		31.82%			

Note: All other% refers to Growth%.

Earnings and Fixed Assets of AL-Najib Milli Mutual Benefits Ltd. 1990-91 to 1997-98

Table No. 5.29 **(In Rs.)**

Year	Service Charges on Loans	Bank FDRs	Deposits with other Companies	Entrance Fees	Pass Book Charges	Miscellaneous Receipts	Total Income	Net Income	as% of Total Income	Tax Paid On Income	Net Profit After Tax	Total Reserves	Fixed Assets
1	2	3	4	5	6	7	8	9		10	11	12	13
1990-91	28618	12150		44026	2282	18	87094	1035	1.19%	620	415	415	
	32.85%	13.95%		50.50%	2.62%	0.02%				0.71%	0.48%	0.48%	
1991-92	888220	390350	10069	45512	13716	3190	1351059	1788	0.13%	900	888	1303	
	65.70%	28.90%	0.74%	3.37%	1.01%	0.24%	1451.26%	72.75%		0.07%	0.07%	0.10%	
1992-93	2828181	920307	1113	24240	12462	13538	3799804	4381	0.12%	2200	2181	3421	
	74.47%	24.27%	0.03%	0.64%	0.33%	0.36%	181.25%	145.02%		0.06%	0.67%	0.09%	
1993-94	4493333	853844	NIL	25714	15124	18353	5406369	6477	0.12%	2920	3557	7041	544989
	83.10%	15.80%		0.47%	0.28%	0.34%	42.28%	47.84%		0.05%	0.07%	0.13%	10.08%
1994-95	5696190	2438085	10044	26844	20504	2502	8194169	56800	0.69%	22720	34071	41112	529690
	69.50%	29.80%	0.12%	0.32%	0.25%	0.03%	51.57%	776.94%		0.28%	0.42%	0.50%	6.46%
1995-96	6341039	3720911	62632	35730	25891	11874	10198078	49240	0.48%	19700	29540	70653	1322894
	62.18%	36.50%	0.16%	0.35%	0.25%	1.66%	24.46%	(-)13.31%		0.19%	0.29%	0.71%	12.97%
1996-97	6923619	4408616	15754	43658	28605	77847	11498099	86968	0.76%	34790	52178	122832	1773567
	60.20%	38.30%	0.10%	0.38%	0.24%	0.68%	12.75%	76.62%		0.30%	0.45%	1.07%	15.42%
1997-98	8570246	6497206	6695	38480	21439	22480	15156546	148360	0.98%	51950	96410	189442	2824727
	56.50%	42.90%	0.04%	0.25%	0.14%	0.15%	31.82%	70.59%		0.34%	0.64%	1.25%	18.64%

Note: 1. All% except in Column no. 8 and 9 refer to% of Total Income.

2.% in Column no. 8 and 9 refer to Growth%.

AL-NAJIB MILLI MUTUAL BENEFITS LTD.
Year-wise Social Performance. 1990-91 to 1997-98

Table 5.30:	**Members, Share Holders, Depositors, Beneficiaries**						
	Muslim			**Non-Muslims**			
Year	Men	Women	Total	Men	Women	Total	Grand Total
1990-91	NA	NA	NA	NA	NA	NA	NA
1991-92	1740	1312	3052	432	876	1308	4360
1992-93	22680	17109	39789	5627	11426	17053	56842
1993-94	27801	20972	48773	6898	14005	20903	69676
1994-95	54579	41173	95752	13542	27495	41037	136789
1995-96	90220	68060	158280	22385	45449	67834	221164
1996-97	134808	101697	236505	33448	67911	101359	337864
1997-98	215773	162776	378549	53538	108697	162235	540784
	40%	30%	70%	10%	20%	30%	100%

Management is only partially satisfied because they have not been able to provide cheap credit. Nor are they able to diversify investments on PLS basis. How to invest on PLS basis without risking the public money is a big problem for the Management of AMMBL, which lacks professional competence. Occasionally some orientation training is provided to staff in the Head office.

The Management believes that IIFCs have the potential to be an alternative to the contemporary financial institutions, but does not know how to go about it. They are not aware of MNCs like ANZ entering the field of Islamic finance in the sub-continent. The Management does desire to expand and diversify their operations. They have not approached RBI or Govt. for redressal and removal of hurdles in the way of IIFCs. Nor do they have any plans for establishing financial, technical or training linkages with IFIs operating in the Muslim world. However the Management has established close rapport with Barkat Leasing and Financial Services Ltd. of Mumbai and is promoting each other's business from Branches of both the organisations. They have also played a leading role in the formation of FIFO. The Management desires RBI to permit operation of interest-free IFIs, reduce and allow the SLR to be kept with IFIs.

5.5.4 Problems and Prospects

According to Management the Nidhi format itself has become a problem. It was adopted because it allowed the expansion of Deposit mobilisation and interest-free lending activities of MFN. But increase in the Operational Costs has compelled them to increase Service Charges and also keep some Funds in Fixed Deposits of Commercial Banks and collect interest so as to meet the additional Costs. Thus inspite of their desire to eschew interest they are unable to do so. Their second problem is that they are compelled to keep a very high% of liquidity. The composition of their customers is such that there are more frequent and heavy withdrawals of Deposits. Not only seasonal changes, any subtle change in economic, social, political or security environment leads to withdrawals. As a result only 41% to 51% of the total Funds are lent (Column 8, Table No. 5.26), thereby reducing Service Charges recovered to only about 60% of the total Cost (Column 5, Table No. 5.28).

It is found that at least 28 of the 43 Branches of AMMBL are located in the offices of MNF, because the Management is same and it is convenient to do so. On further inquiry it is found that the staff are neither paid well nor are they qualified and trained appropriately to perform their duties efficiently and effectively. Low payments come in the way of appointing professionally qualified staff. The problem is further accentuated by the fact that the Management is neither in a position to appoint higher qualified staff nor pay them more, because of the already higher operational costs. Since the policies and practices of MFN have been continued by AMMBL, its problems have also been inherited. Even AMMBL does not sell gold ornaments to recover loans overdue for years, for fear of loosing their credibility that is built around the fact that MFN and AMMBL never sell gold of any customer kept in their custody as security against loans.

Another important problem, which is worrying the Management of AMMBL is, changing norms and increasing restrictions on the functioning of NBFCs mainly due to dubious and fly-by-night financial institutions. In the absence of favorable rules to manage interest-free financial institutions the Management of AMMBL always feels threatened and cannot concentrate on developmental policies and programs.

Inspite of above mentioned problems there is no denying of the fact that IFIs like MFN and AMMBL are serving and will continue to serve the economically backward Muslims as well as non-Muslims of India, because organised Commercial Banks are more rigid and beyond their means, besides being unsympathetic and unapproachable. If IIFCs of India like AMMBL can specialise in door-to-door banking and provide more sympathetic and need based services, they can manage to improve their prospects in coming years.

CHAPTER 6

CONSOLIDATED AND COMPARATIVE ECONOMIC PERFORMANCE OF INDIA'S ISLAMIC FINANCIAL INSTITUTIONS

All the four categories of IFIs of India, classified by this study are different in their objectives, organisation and management. They fulfill different economic needs of market and society. Strictly speaking their economic performance cannot be consolidated nor compared. However they are all guided by and serve the ends of Islamic economic *shariah* principles. Their effectiveness and efficiency, has to be determined individually as well as collectively. Collective and category-wise assessment of economic performance of IFIs will help us to evaluate their economic status and future potential. It will also enable us to identify their economic problems and suggest necessary corrective steps for their future development.

Year-wise economic performance of respective IFIs surveyed, has been already assessed in previous chapters, in order to provide a consolidated and comparative view of IFIs of India as an industry, we will first study their economic status in 1998-99; the last year of this study. Table No. 6.1 provides institution and category-wise economic status of IFIs of India in 1998-99. Table No 6.2 provides the consolidated category and industry-wise status of IFIs. However the last two financial years of the study, 1997-98 and 1998-99 were abnormal years, especially for IIFCs, because of the new Prudential Norms imposed by RBI. The denial of registration and closure of some of the NBFCs including IIFCs had an adverse impact on the performance of other IFIs as well. In order to eliminate annual performance vagaries, and provide a more normal performance status of all the IFIs of India, five-year arithmetic mean of important economic variables from 1994-95 to 1998-99 has been calculated and analysed in Table No. 6.3. Institution-wise, category-wise, and industry-wise five year mean values of important economic variables including equity and deposit mobilisation, deployment, costs, earnings, cash balances, fixed assets etc are presented. Based on these values various ratios of IFIs of India, including equity, deployment, Cost and return ratios have been calculated and presented in Table No 6.4. Economic performance variables and their ratios have been also illustrated in graphs for better understanding of the comparative economic performance of Indian IFIs.

Year-wise economic performance of most of the IFIs of India is available for only the last five years of their operation from 1994-95 to 1998-99. Hence Arithmetic mean of respective economic variables has been also calculated for five yeaRs. In cases where the institution's life is short or data is available for only short periods, the mean is also calculated for shorter periods. Economic performance data of some IFIs is available for five years but only up to 1997-98 hence their five-year mean is based on data from 1993-94 to 1997-98. In some cases of where relevant data is not available, it has been derived and estimated on the basis of available indicatoRs. For instance income data of PCCS and BNCCS is not available. The income of PCCS has been estimated on the basis of income tax it has paid and the rate of income tax in 1998. The income of BCCNS has been approximated on the basis of the known fact that it is calculating and collecting exact Service Charges on interest-free loans and also earning some commission on vehicle and installment loans.

6.1 ECONOMIC STATUS OF IFIs IN 1998-99.

The economic status of individual IFIs in the last year of their operation is presented in Table No. 6.1 and category-wise consolidated economic status of IFIs is presented in Table No. 6.2.

Comparative Economic Status of IFIs of India in 1998-99

Table No. 6.1 **(In Rs. Lakh)**

Sl. No.	Institutions	Equity	Deposits	Total Funds	Loans	Invest-ments	Funds Deployed	Total Cost	Total Income	Net Income	C.& Bk. Balances	Fixed Assets	Bran-ches
1	2	3	4	5	6	7	8	9	10	11	12	13	14
	I. FAPs												
1	B A Belgaum	16.40	14.00	30.40	142.00	NIL	142.00	0.50	0.74	0.24	2.00	0.25	NIL
2	I F S Pune	NIL	2.70	2.70	2.50	NIL	2.50	0.05	0.05	0.00	0.35	NIL	NIL
3	SIFC Pattikadu	NIL	5.06	5.58	4.76	1.00	5.76	0.19	0.53	0.34	0.28	1.00	NIL
4	MBG Bhatkal	NIL	NIL	0.72	0.72	NIL	0.72	NIL	NIL	NIL	NIL	NIL	NIL
5	MWS Faizabad	Nil	4.20	4.20	1.20	NIL	1.20	0.09	0.07	-0.02	2.99	NIL	NIL
	TOTAL	**16.40**	**25.96**	**43.60**	**151.18**	**1.00**	**152.18**	**0.83**	**1.39**	**0.56**	**5.62**	**1.25**	**0**
	II. IFSs												
1	MFDeoband	NIL	538.86	538.86	317.76	NIL	317.76	18.63	35.00	16.37	16.36	150.00	NIL
2	MFNajibabad	NIL	1259.23	1259.23	428.66	NIL	428.66	82.31	91.48	9.17	838.16	232.22	29
3	TB Hyderabad	NIL	18.00	207.47	131.07	NIL	131.07	17.44	17.44	0.00	45.16	22.75	NIL
4	BT Chennai	NIL	NIL	31.19	9.47	NIL	9.47	4.15	4.15	0.00	30.34	0.61	NIL
5	IWS Bhatkal	NIL	229.65	229.65	202.22	1.31	203.53	7.78	7.78	0.00	9.47	11.59	NIL
	TOTAL	**0.00**	**2045.74**	**2266.40**	**1089.18**	**1.31**	**1090.49**	**130.31**	**155.85**	**25.54**	**939.49**	**417.17**	**29**
	III. ICCSs												
1	PCCSs	7.71	NIL	7.71	7.11	31.81	38.92	3.53	4.28*	0.75	37.62	30.00	NIL
2	BNCCS	127.62	1241.59	1369.21	585.00	121.00	706.00	147.00	151.84*	4.84	115.00	345.98	20
3	BCCS	14.61	110.46	125.07	71.30	28.25	99.55	18.54	10.11	-8.43	29.72	8.49	4
4	NCSCCS	16.56	NIL	16.56	14.56	NIL	14.56	0.19	0.87	0.68	2.53	2.55	NIL
5	ACCS	13.14	34.00	47.14	40.00	NIL	40.00	5.00	5.73	0.73	7.55	NA	NIL
	TOTAL	**179.64**	**1386.05**	**1565.69**	**717.97**	**181.06**	**899.03**	**174.26**	**172.83**	**-1.43**	**192.42**	**387.02**	**24**
	IV. IIFCs												
1	BLFS *	143.60	1340.18	1485.02	NIL	1534.34	1534.34	153.43	78.74	-74.69	44.90	286.97	16
2	AFH	430.00	697.75	1417.15	NIL	1282.45	1282.45	250.13	715.21	465.08	146.94	365.07	9
3	AIFIC	1066.25	613.63	1928.99	7.67	1907.26	1914.93	339.85	239.66	-100.19	115.37	465.80	14
4	SSF	306.45	1132.08	1581.37	17.58	1194.78	1212.36	290.72	495.36	204.64	59.60	739.12	9
5	ANMMB	16.44	1403.31	1423.30	729.22	575.77	1304.99	167.24	151.56	-15.68	653.46	28.25	43
	TOTAL	**1962.74**	**5186.95**	**7835.83**	**754.47**	**6494.60**	**7249.07**	**1201.37**	**1680.53**	**479.16**	**1020.27**	**1885.21**	**91**
	All IFIs	**2158.78**	**8644.70**	**11711.52**	**2712.80**	**6677.97**	**9390.77**	**1506.77**	**2010.60**	**503.83**	**2157.80**	**2690.65**	**144**

Note: 1. PCCS has paid Income Tax of Rs.1.5 lakh in 1998. At 35% income being taxed in that year PCCS income would be 4.28 lakh.

2. 100% Service charges + 4% Commission on Investments has been assumed to be Total Income of BNCCS.

3. All the Figures of BAB, SIFC, PCCS, NCSCCS, BLFSL and ANMMB are corresponding to the year 1997-98.

4. All the Figures of IFSP belong to 1999-2000 and MWS belong to 1991-92.

Category-wise Consolidated and Comparative Economic Status of IFIs of India in 1998-99.

Table No. 6.2 **(Rs .in lakh)**

Sl. No.	Institu-tions	Equity	Deposits	Total Funds	Loans	Invest-ments	Total Funds Deployed	Total Cost	Total Income	Net Income	Cash & Bk. Balances	Fixed Assets	Branches
1	2	3	4	5	6	7	8	9	10	11	12	13	14
1	FAPS	16.40	25.96	43.60	151.18	1.00	152.18	0.83	1.39	0.56	5.62	1.25	NIL
		0.76%	0.30%	0.37%	5.57%	0.01%	1.62%	0.06%	0.07%	0.11%	0.26	0.04%	
2	IFSs	NIL	2045.74	2266.40	1089.18	1.31	1090.49	130.31	155.85	25.52	939.49	417.17	29
			23.66%	19.36%	40.15%	0.01%	11.61%	8.65%	7.75%	5.06%	43.70%	13.25%	
3	ICCS	179.64	1386.05	1565.69	717.97	181.06	899.03	147.26	172.83	-1.43	192.42	387.92	24
		8.32%	16.03%	13.37%	26.47%	2.71%	9.57%	11.56%	8.59%	-0.28%	8.58	12.29%	
4	IIFCs	1962.74	5186.95	7835.83	754.47	6494.60	7249.07	1201.37	1680.53	479.13	1020.27	1885.21	91
		90.92%	60.00%	66.91%	27.81%	97.25%	77.19%	79.73%	83.58%	95.10%	47.46%	70.06%	
5	**All IFIs**	**2158.78**	**8644.70**	**11711.52**	**2712.80**	**6677.97**	**9390.77**	**1506.77**	**2010.60**	**503.83**	**2157.80**	**2690.65**	**144**
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

i. Economic status of FAPs:

Financial Associations of Persons (FAPs) are generally the smallest IFIs of India, though they are most widespread. They provide easy and cheapest credit to its members, without any hassles of financial institutions. Barkat Association of Belgaum, which is the exclusive association of businessmen of Belgaum, is the largest FAP with Rs. 30.40 lakh of Fund mobilisation and Rs. 142.00 lakh of interest-free loans. It represents popular and emerging financial arrangement by the Muslim businessmen in India. Millat Welfare Society of Faizabad has the largest idle Cash and Bank balance of Rs. 2.99 lakh that is responsible for negative Net Income of 0.02 lakh. It has provided interest-free loans of Rs. 1.2 lakh at an average Cost of only 0.09%. Shantapuram Islamic Finance Corporation of Pattikadu in Kerala is the only FAP that has invested Rs. 1.00 lakh on PLS basis. Perhaps that is the reason for highest Net Income earnings of Rs. 0.34 lakh by SIFC. It is also extending interest-free loans of Rs. 4.76 lakh at an average Cost of 0.19%. (Table No. 6.1) Interest-free Society Pune has provided interest-free loans of Rs. 2.5 lakh with the least average Cost of 0.05%. Mutual Benefit Group of Bhatkal is the smallest of the 5 FAPs surveyed, which has provided Cost-free loans of Rs. 0.72 lakh. FAPs generally do not have any Fixed Assets, because they are financial arrangements between smaller groups of people belonging to all walks of life, rather than institutions. The economic status of all the 5 FAPs in the last year of their operations is also presented in Chart No. 1.

Collectively FAPs are the smallest IFIs. They account for only 0.30% of the entire Islamic Financial Institution's Funds, 0.76% of Equity, 0.30% of Deposits, 1.25% of Fixed Assets. However their ample potential is evident from the fact that with only 0.37% of Funds they account for 5.57% of industry's interest-free loans at minimum Cost of 0.06%. FAPs Deployment Ratio is highest at 346.73% because of the excellent turn over of funds achieved by Barkat Association of Belgaum. FAPs have a positive Net Income of Rs. 0.56 lakh, although they do not aim at earning profits or income. The five FAPs surveyed by this study have mobilised Rs. 43.60 lakh in 1998-99. There are 85 FAPs identified by this study. Though FAPs as a category are very small it is difficult to estimate their exact number or size of Funds (Table No. 6.2). Comparative economic status of category wise FAPs is presented in of Chart No. 5. The fact that various value bars of FAPs are almost invisible presents the fact that FAPs are comparatively smaller in size.

ii. Economic status of IFSs:

Islamic Financial Societies are the dominant Islamic Financial Institutions of India. They are promoting Islamic financial principles on the one hand, and reducing human suffering on the other hand by helping generally poor Muslims with interest-free loans, *Zakah* and *Sadqah* Funds. Amongst IFSs, Muslim Fund Najibabad is the biggest with Rs. 1259.23 lakh Funds, Rs. 428.66 lakh interest-free loans, Rs. 838.16 lakh Bank Balances and Rs. 232.22 lakh of Fixed Assets. It is also the only IFS to have as many as 29 Branches. MFN has much higher cash reserves than even loans provided, mainly because all of its Funds consist of Spot Deposits, which are withdrawn more often than current accounts. Bait-ul-Maal Tamilnadu of Chennai (BTC) is the smallest IFS with just Rs. 31.19 lakh Funds. It has extended interest-free loans worth only Rs. 9.47 because like Toor Bait-ul-Maal of Hyderabad BTC is also mobilizing and providing *Zakah* and *Sadqah* grants to deserving Muslims. The values of various economic variables of BTC are so small in comparison with total values of all the five IFSs that its bars in the graph of Chart No. 2 are almost invisible. MFN and MFD are the largest IFSs of not only this study but India itself. Together they account for 79.34% of IFSs funds. Islamic Welfare Society of Bhatkal is the largest amongst all the Islamic Welfare Societies of India promoted by Jamat-e-Islami-Hind. It has mobilised Deposits worth Rs. 209.65 lakh and issued interest-free loans of Rs. 202.22 lakh. The Toor Bait-ul-Maal and Bait-ul-Maal Tamilnadu are also the biggest Bait-ul-Maals of India. Like most of the other Bait-ul-Maals of India they are not only mobilising Deposits and Equity, but also collecting membership subscriptions, *Zakah* and specific purpose based *Sadqah* funds, most of which are not withdrawable.

Collectively IFSs are the mainstay of IFIs in India. They are second to only Islamic Investment and Financial Companies (IIFCs) in their performance as well as status, which is clear from the category-wise graph of IFIs I Chart No. 5. They have 23-66% of total industry's Deposits, though 19.36% of total Funds of entire IFIs, 43.70% of Cash Reserves and 13.25% of Fixed Assets. They have 5.06% of industry's Net

Chart No. 1

Economic Status of Financial Associations of Persons, 1998-99.

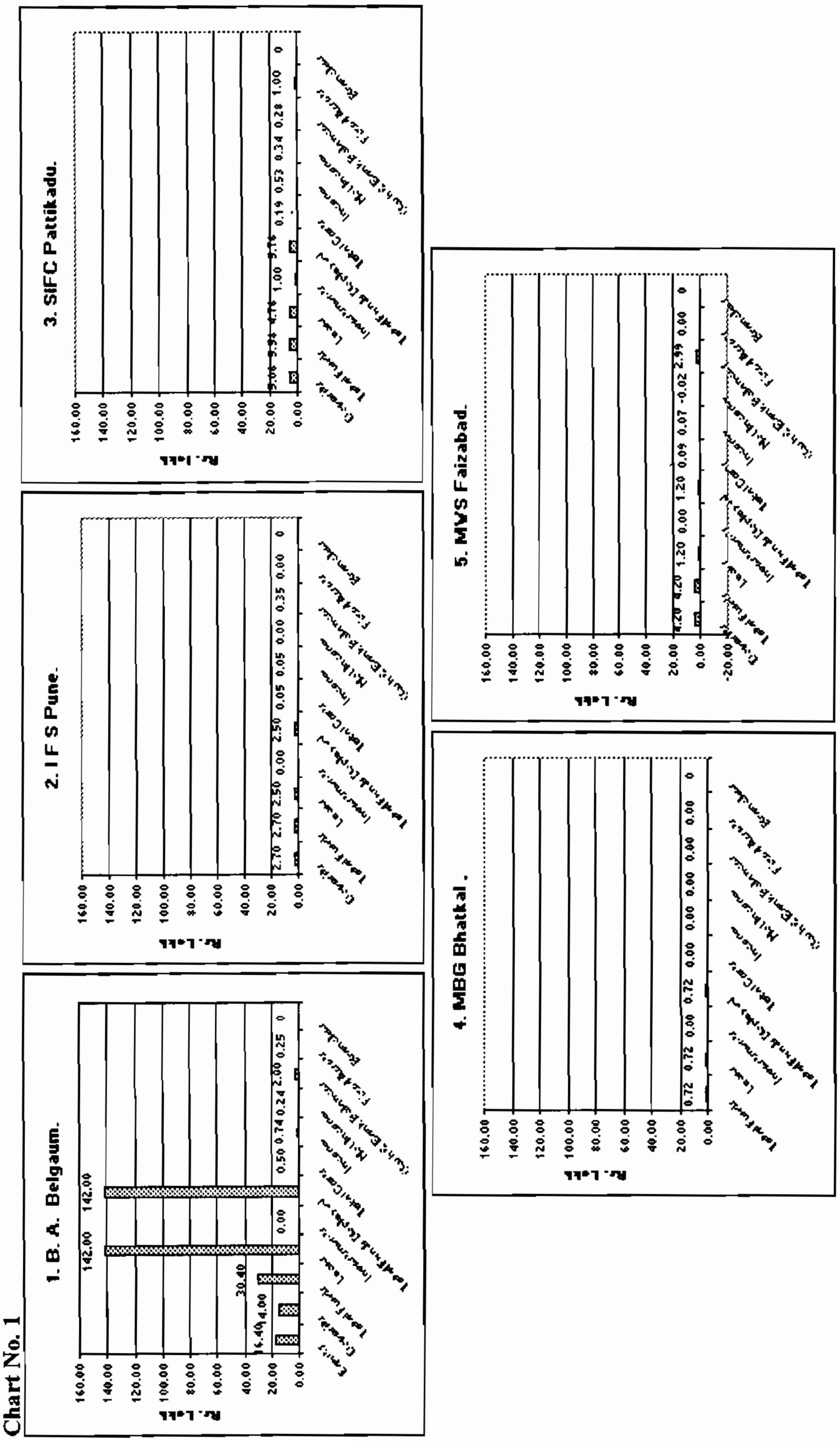
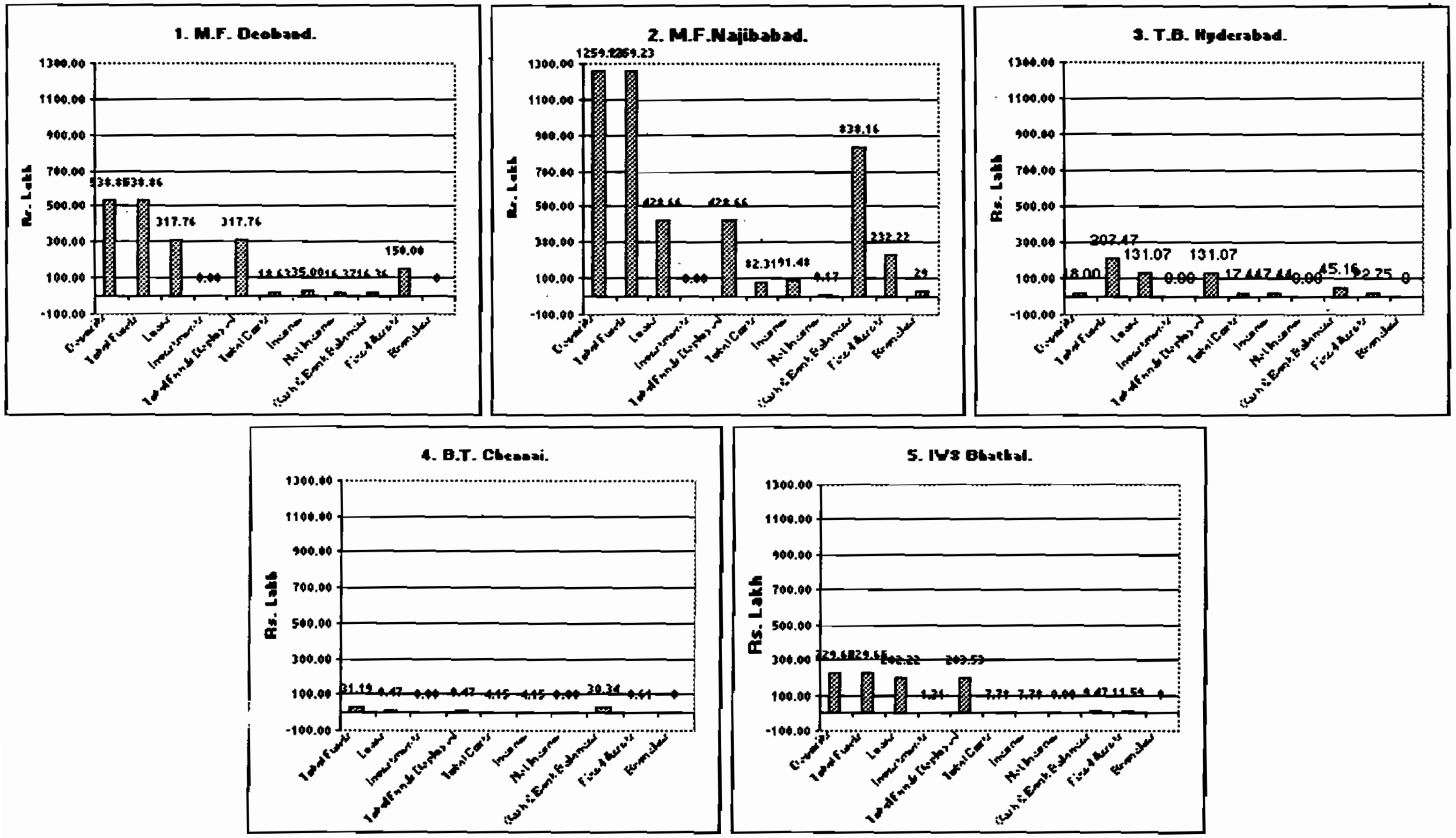


Chart No. 2

Economic Status of Islamic Financial Societies, 1998-99.



Economic Status of Islamic Co-operative Credit Societies. 1998-99.

Chart No. 3

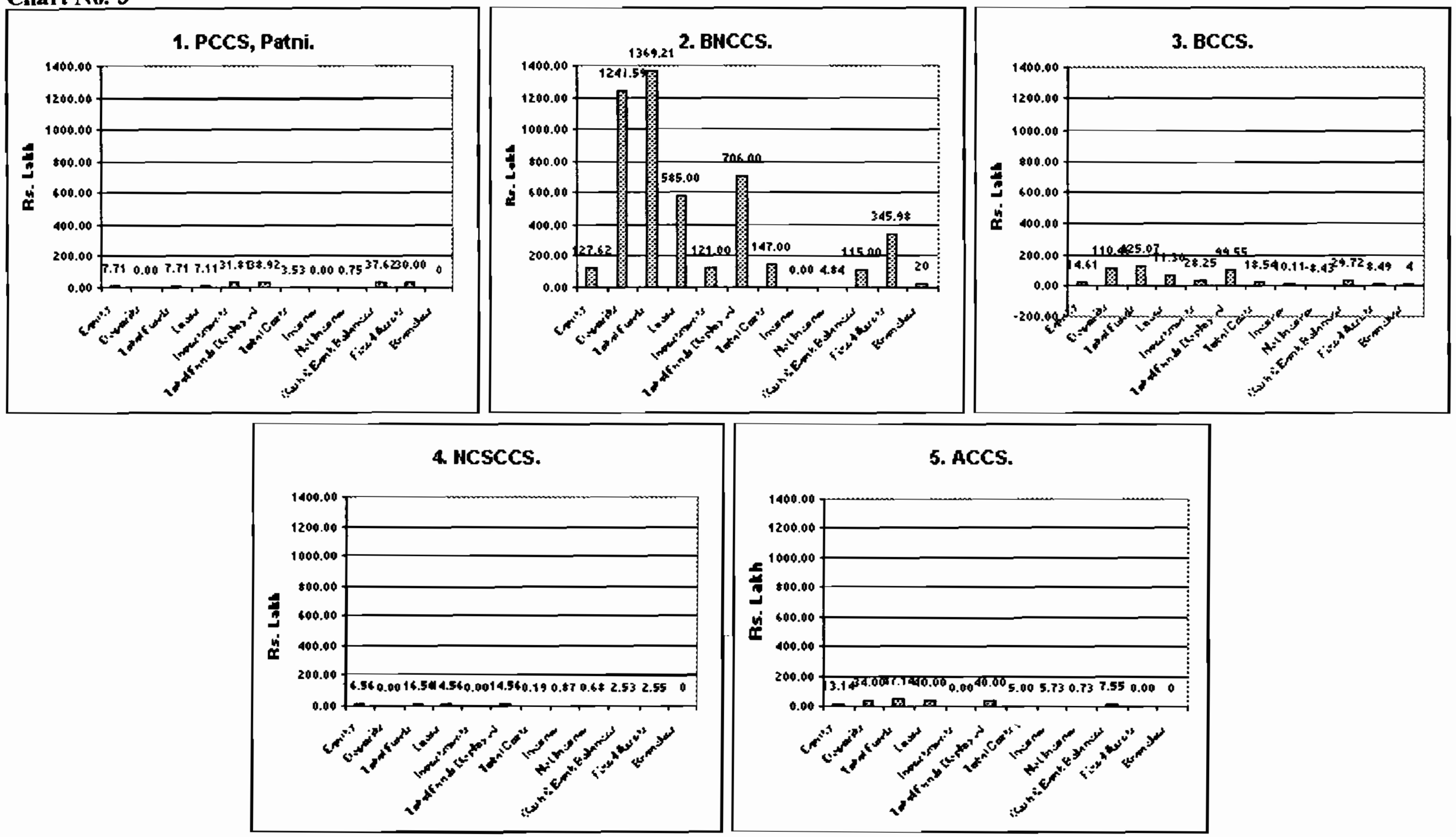
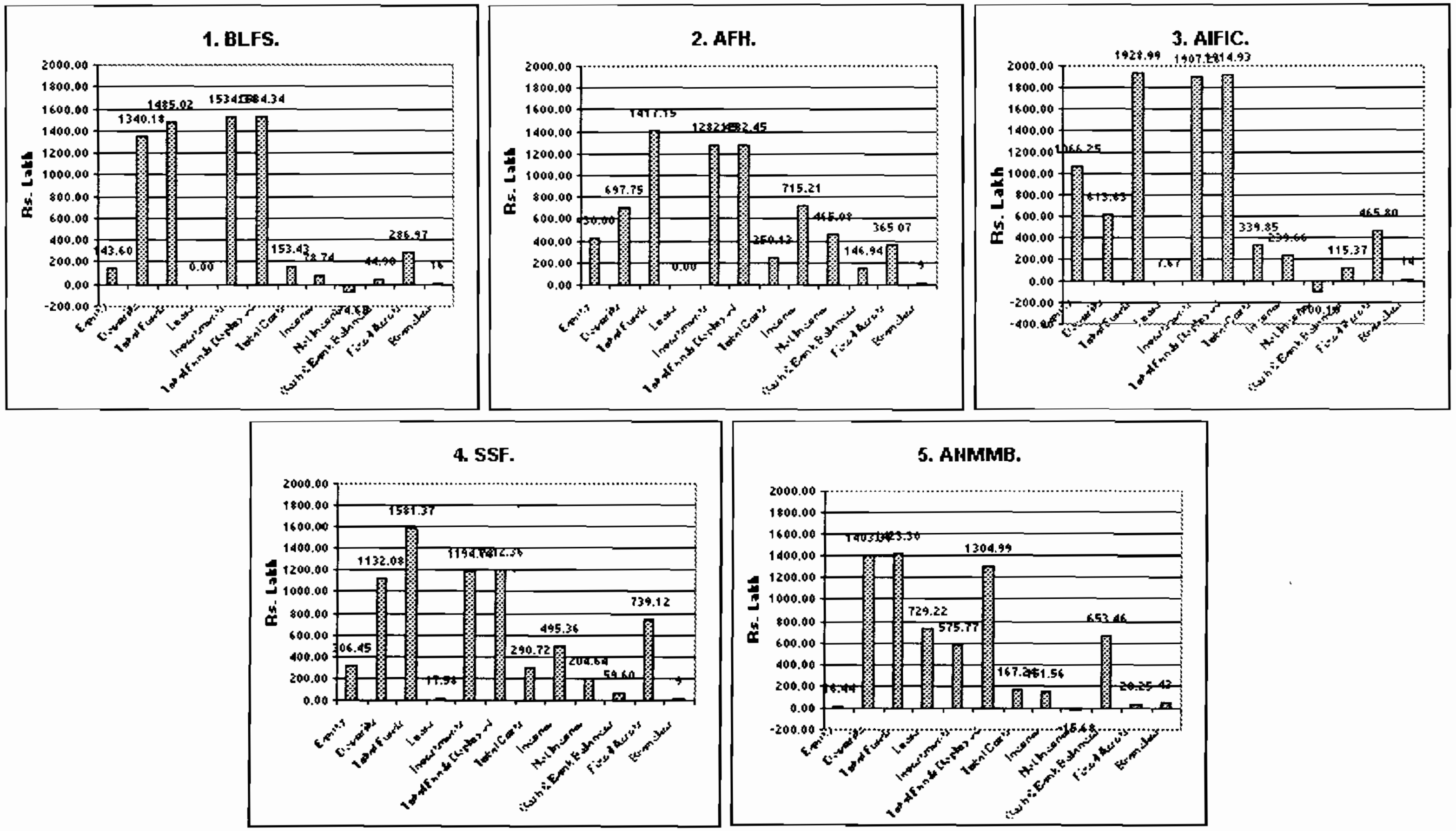


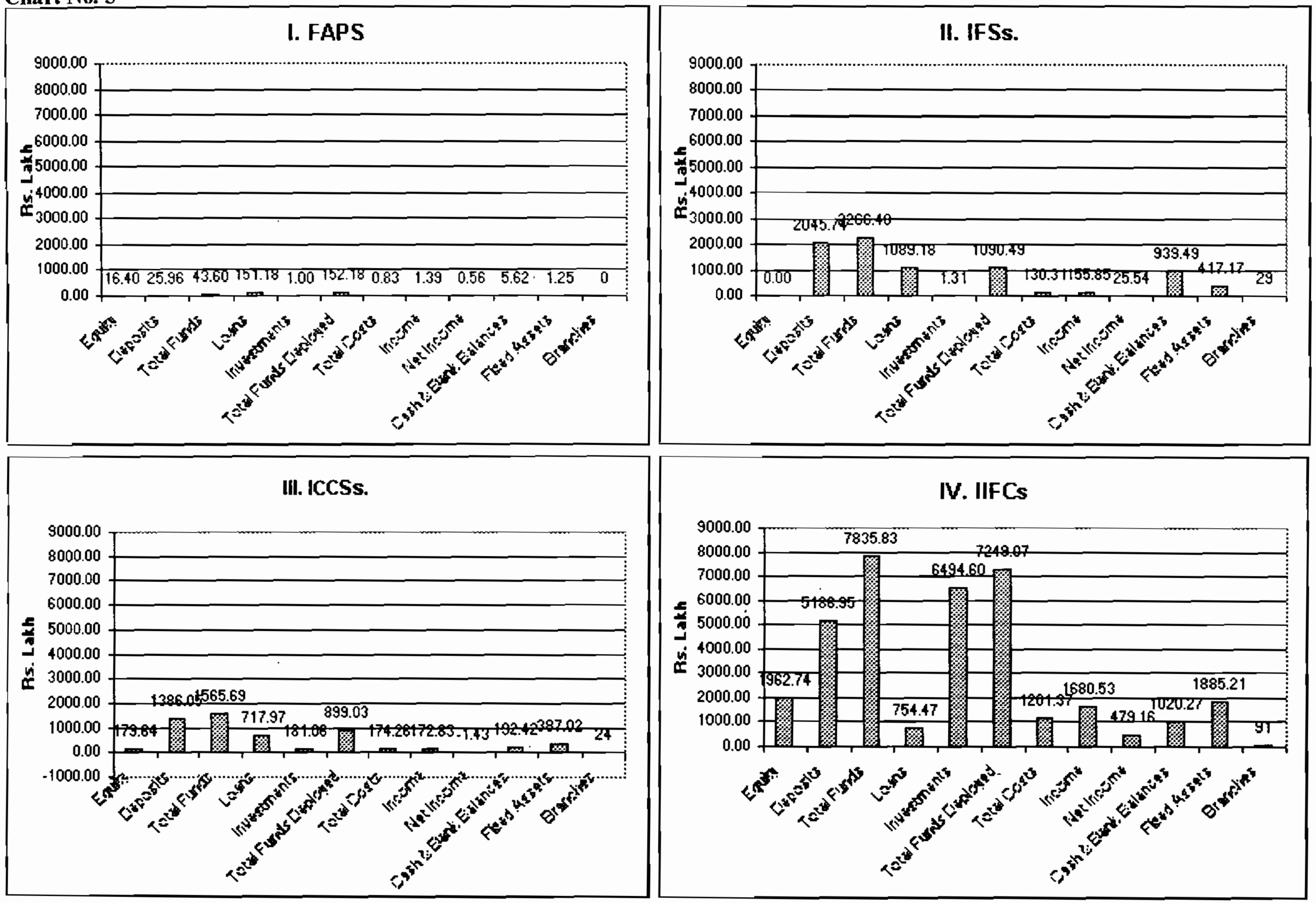
Chart No. 4

Economic Status of Islamic Investment and Financial Companies, 1998-99.



CATEGORY-WISE ECONOMIC STATUS OF IFIs, 1998-99.

Chart No. 5



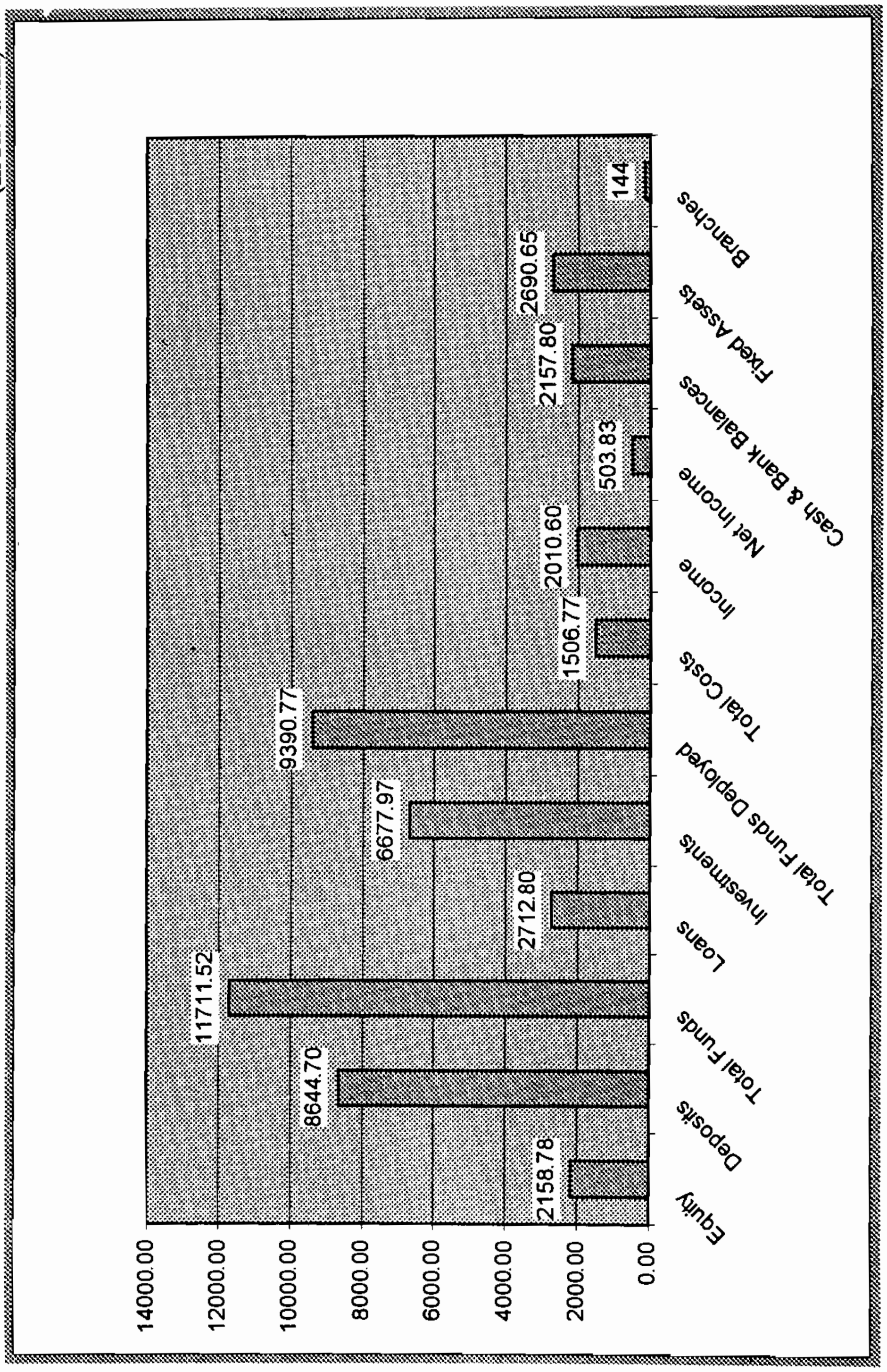


Chart No. 6

ECONOMIC STATUS OF IFIs 1998-99

Income, although like FAPs they too are not expected to earn Net Income. They are recovering slightly more amount than Operational Costs, in the form of Service Charges, perhaps because they are also collecting donations to meet the Costs. As far as interest-free *Qard-e-Hassan* loans are concerned IFSs are the first with Rs. 1089.18 lakh or 40.15% of the total industry's loans. (Table No. 6.2) As against the general belief that IFSs are unable to recover their Operational Costs, the fact is, collectively they are enjoying a Net Income of Rs. 25.52 lakh. They have also built impressive Fixed Assets of Rs. 417.17 over the yeaRs. However most of these assets, 91.62% are owned by MFD and MFN the largest and oldest IFSs of India. Most of the other hundreds of IFSs are comparatively very small, though they are able to recover their Costs either through Service Charges or donations. Infact Toor Bait-ul-Maal, and Bait-ul-Maal Tamilnadu do not recover any Service Charge from beneficiaries, they provide not only interest-free but Cost free loans. They are recovering their Costs from either member's subscriptions or donations. The PLS Investments of IFIs are negligible. Only Islamic Welfare Society of Bhatkal has invested Rs. 1.31 lakh on rent earning avenues. On the national level also very few IFSs are investing in PLS or income earning activities. IFSs are having more than necessary liquid cash, though they do not have any own funds or Share Capital.

There are 146 IFSs in India identified by this study. The oldest and largest five of them surveyed by this study have collectively mobilised Rs. 226.40 lakh in 1998-99, which may be more than 70% of the Total Funds mobilised by all the IFSs of India, considering the fact that other IFSs are very small in size.

iii. Economic status of ICCSs:

There are not too many Islamic Co-operative Credit Societies (ICCSs) in India or else where in the world. Patni Co-operative Credit Society established in 1938 is the first and oldest IFI, not only in India, possibly in the world. It is still functioning successfully, because Co-operative Society's model is closest to Islamic economic *shariah* principles. It enables the organisers to mobilise Islamic Deposits as well as Equity; issue interest-free loans and also invest its funds in PLS avenues. Bait-un-Nas'r Urban Co-Operative Credit Society Ltd. (BNCCS) of Mumbai is the largest ICCS with 20 Branches. It has mobilised Equity worth Rs. 127.62 lakh, and Deposits worth Rs. 1241.59 lakh. It has provided interest-free loans worth Rs. 585.00 lakh and PLS Loans worth Rs. 121.00 lakh in 1998-99.The net earnings of BNCCS are Rs. 4.48 lakh and Fixed Assets worth Rs. 345.98 lakh. Fund-wise Nehru College Staff Co-operative Credit Society Ltd. of Hubli is the smallest with only Rs. 16.56 lakh of equity. It is clear from different graphs of Chart No. 3. Bait-ul-Maal Urban Co-operative Credit Society Ltd. of Bombay has total Funds of Rs. 125.07 lakh. The Patni Co-operative Credit Society of Surat in Gujarat is not accepting Deposits. It has raised Equity worth Rs 7.71 lakhs and issued interest-free loans worth Rs. 7.11 lakh. It has made handsome profits from its PLS Investments of Rs. 31.81 lakh in Stocks of Companies and Looms, made in earlier yeaRs. PCCS has adequate liquid cash of Rs. 37.62 lakh and Fixed Deposits of Rs. 30.00 lakh in 1997-98. PCCS is also maintaining welfare-oriented Funds mainly out of the profits earned by the Society.

Collectively ICCSs have mobilised Equity worth Rs. 179.64 lakh, Deposits worth Rs. 138.05 lakh and Total Funds worth Rs. 1565.69 lakh, forming 13.37% of Total Funds mobilised by all the IFIs of India. They have made just 2.71% of total PLS Investments and provided 26.47% of total Interest-Free Loans of the industry. Apart from the big and active five ICCSs surveyed by this study they are very few active ICCSs, though 14 of them have been identified. Hence we can safely say that this study covers over 80% of the funds, loans and PLS Investments made by all the ICCSs of India. The economic status of respective ICCSs and the consolidated economic status of the entire group is well brought out in and Chart No. 3 and 5.

iv. Economic status of IIFCs:

Islamic Investment and Financial Companies (IIFCs) are comparatively of recent origin in India. They were established in 1980s. Al-Ameen Islamic Financial and Investment Corporation Ltd. (AIFIC) of Bangalore is the largest, but not very successful in its operations. Although it has mobilised Rs. 1928.99 lakh of Funds comprising of Share Capital of Rs. 1066.251 lakh and public Deposit worth Rs. 6.3.63 lakh, deployed Rs. 1914.93 lakh mostly Leasing and Hire Purchase, its Costs are highest at Rs. 339.85 lakh and

Earnings only Rs 239.66 lakh in 1998-99. Its Net Income is negative, in other words it is making losses. It has also failed so far to get the RBI registration as a Leasing and Finance Company as per the new Prudential Norms of 1998. AIFIC has reduced its branches from 24 to 14 in 1998-99. It has fixed assets worth Rs. 465.80 lakh. Barkat Leasing and Financial Service Ltd. (BLFSL) of Barkat Group of Companies of Mumbai is also not doing well. Not because of the new Prudential Norms of RBI but because of its ill advised investment policies. The Net-Income of BLFSL is also negative in 1998. BLFSL has over-deployed its Funds mostly in real estate, to the extent of Rs. 1534.34 lakh, though it has Funds of only Rs. 1485.02 lakh. Its liquid Cash Reserves are also negligible at only Rs. 44.90 lakh. The market value of its Fixed Assets worth Rs. 286.97 lakh consisting of real estate was also rapidly going down. Therefore BLFSL was in all sorts of difficulties. AL Najib Milli Mutual Benefits Ltd. (AMMB), a Nidhi Company of Muslim Fund Najibabad is also not doing well in 1998. It has Equity Funds of Rs. 16.44 lakh, and Deposits worth Rs. 1403.31 lakh. Of all the IIFCs it has extended maximum Interest-Free Loans worth Rs. 729.92 lakh. Its meager Investments are mostly in Govt. Securities and Bonds with variable returns, they are giving low returns. Hence its Net Income is negative.

Al-Barr Finance House Ltd. (AFHL) of Mumbai was formerly known as AL-Baraka Finance House Ltd. and Seyad Shariat Finance Ltd. (SSFL) of Tirunelveli in Tamilnadu, both of these IIFCs are doing very well. Both of them have not only wiped out the losses of other three Companies, but also earned substantial Net Income. AFHL has Funds worth Rs. 1417.15 lakh, PLS Investments of Rs. 1282.45 lakh and highest Net Income of Rs. 465.08 lakh. It has 9 branches and Fixed Assets worth Rs. 365.07 lakh. SSFL has slightly more Funds Rs. 1581.37 lakh than AFHL, but less Deployment Ratio, hence lower Net-Income of Rs. 204.64. AFHL and SSFL have been also able to comply with new Prudential Norms and obtained RBI registration. The Company-wise and consolidated economic status of IIFCs is illustrated in Chart No. 4 and 5.

Collectively all the five IIFCs of India have performed rather well. They have mobilised 90.92% of the Share Capital, 60% of the Deposits and 66.91% of the Total Funds of industry. IIFCs have been also extending interest-free *Qard-e-Hassan* loans worth Rs. 754.47 lakh in 1998-99. IIFCs have accounted for 97.25% of the total PLS Investments. Like IFIs else where in the world Indian IIFCs are also investing most of their funds in Leasing, Higher-Purchase and *Murabahah* financing. Consolidated Net Earnings of IIFCs are Rs. 479.13 lakh or 93.98% Total Earnings of all the IFIs of India. Together they have adequate Cash Reserves of Rs. 1020.27 lakh. IIFCs of India are operating maximum number of 91 branches. They have Fixed Assets worth Rs. 1885.21 lakh, which accounts for 70.05% of the total. (Table No. 6.2)

There are about 48 IIFCs in India, identified by this study. However 36 of them belong to the 3 Group of Companies including Al Falah, and Al-Fahad Groups of Delhi and Barkat Group of Mumbai. All these 3 Groups of Companies have become defunct due to either mismanagement or RBI's rejection of their registration application. The five Companies surveyed by this study are largest Islamic Investment and Financial Institutions of India, rest of the IIFCs are small and inconsequential. Hence we can safely say that the IIFCs surveyed by this study cover over 80% business of all the IIFCs of India.

6.2 Consolidated and Comparative Economic Performance of IfIs of India:

The economic status of IFIs of India in 1998-99 does not tell us much about their over all economic performance over the yeaRs. Therefore in this section we have calculated institution-wise, category-wise and industry-wise 5 year mean performance of all the IFIs, generally from 1994-95 to 1998-99 and also presented various ratios to assess their economic performance. First we have dealt with Institution and category-wise economic performance of IFIs with the help of Table No. 6.3. Next we will deal with category and industry-wise economic performance of IFIs surveyed with the help of Table No. 6.4. Various economic performance ratios are provided in Table No. 6.5. and Chart No. 7 to 12.

Consolidated and Comparative Economic Performance of Islamic Financial Institutions of India, 1994-95 to 1998-99.

Table No. 6.3 **(In Rs. Lakh)**

Sl. No.	Institutions	Equity	Depos-its	Total Funds	Loans	Invest-Ments	Total Funds Deployed	Total Cost	Income	Net Income	Cash & Bank Balances	Fixed Assets
1	2	3	4	5	6	7	8	9	10	11	12	13
	I. FAPs											
1	B A B	13.05	10.68	23.73	116.75	NIL	116.75	0.72	1.43	0.71	1.81	0.25
2	I F S Pune	NIL	1.80	1.80	1.70	NIL	1.70	0.02	0.03	0.01	0.15	NIL
3	S I F C	2.40	1.67	4.07	2.67	1.00	3.67	0.16	0.35	0.19	0.47	1.00
4	MBG	NIL	0.67	0.67	0.67	NIL	0.67	NIL	NIL	NIL	NIL	NIL
5	MWS	NIL	2.80	2.80	0.80	NIL	0.80	0.06	0.05	-0.01	2.00	NIL
	TOTAL	**15.45**	**17.62**	**33.07**	**122.59**	**1.00**	**123.59**	**0.96**	**1.86**	**0.90**	**4.43**	**1.25**
	II. IFSs											
1	MFD	NIL	415.04	415.04	251.14	NIL	251.14	15.92	25.05	9.13	163.90	150.00
2	MFN	NIL	721.74	721.74	315.50	NIL	315.50	45.41	46.68	1.27	443.09	133.18
3	TBH	12.70	164.90	177.61	100.18	NIL	100.18	15.40	15.40	NIL	43.33	27.31
4	BTC	28.88	Nil	28.88	8.92	NIL	8.92	3.19	4.18	0.99	20.22	0.51
5	IWSB	NIL	218.52	218.52	204.65	1.31	205.96	6.48	6.41	-0.07	7.47	10.10
	TOTAL	**41.58**	**1520.20**	**1561.79**	**880.39**	**1.31**	**881.70**	**86.40**	**97.72**	**11.32**	**678.01**	**321.10**
	III. ICCSs											
1	PCCSs	7.68	NIL	7.68	5.47	23.19	28.66	2.13	2.81	0.68	26.54	25.00
2	BNCCS	113.94	1017.72	1131.66	565.71	106.53	672.24	100.67	105.00	4.33	115.54	271.40
3	BCCS	12.48	108.03	120.51	70.00	24.45	94.45	17.82	9.32	-8.50	19.95	8.57
4	NCSCCS	14.12	NIL	14.12	13.17	0.42	13.59	0.15	0.79	0.64	0.95	0.42
5	ACCS	13.07	28.50	41.57	44.50	NIL	44.50	4.89	5.32	0.43	7.50	NIL
	TOTAL	**161.29**	**1154.25**	**1315.54**	**698.85**	**154.59**	**853.44**	**125.66**	**123.24**	**-2.42**	**170.48**	**305.39**
	IV. IIFCs											
1	BLFSL	70.11	612.45	682.56	NIL	726.66	726.66	75.83	74.87	-0.96	20.23	192.78
2	AFHL	424.00	784.50	1208.50	NIL	1135.06	1135.06	161.86	548.20	386.35	170.98	474.88
3	AIFICL	391.08	1577.91	1968.99	9.12	1898.13	1907.25	334.41	239.66	-94.75	177.06	417.17
4	SSFL	167.05	1351.32	1518.37	18.19	1135.84	1154.03	227.05	439.82	212.77	46.55	584.31
5	AMMBL	10.87	1064.31	1075.18	530.12	487.49	1017.61	101.57	100.90	-0.67	513.04	13.99
	TOTAL	**1063.11**	**5390.49**	**6453.60**	**557.43**	**5383.18**	**5940.61**	**900.72**	**1403.45**	**502.74**	**927.86**	**1683.13**
	All IFIs	**1281.43**	**8082.56**	**9364.00**	**2259.26**	**5540.08**	**7799.34**	**1113.74**	**1626.27**	**512.54**	**1780.78**	**2310.87**

Category-wise Consolidated and Comparative Economic Performance of IFIs of India in 1994-95 to 1998-99

Table No. 6.4 **(IN Rs. Lakh)**

Sl. No. 1	Institu-Tions 2	Equity 3	Deposits 4	Total Funds 5	Loans 6	Invest-Ments 7	Total Funds Deployed 8	Total Cost 9	Income 10	Net Income 11	Ch. & Bk. Balances 12	Fixed Assets 13	Branches 14
1	FAPS	15.45	17.82	33.07	122.59	1.00	123.59	0.96	1.86	0.90	4.43	1.25	NIL
		1.21%	0.22%	0.35%	5.43%	0.02%	1.58	0.09%	0.11%	0.18%	0.25	0.05%	
2	IFSs	41.58	1520.20	1561.79	880.39	1.31	881.70	86.40	97.72	11.32	678.01	321.10	29
		3.24%	18.81%	16.68%	38.97%	0.02%	11.30%	7.76%	6.01%	2.21%	38.07	13.89%	
3	ICCS	161.29	1154.25	1315.54	698.85	154.59	853.44	125.66	123.24	-2.42	170.48	305.39	24
		12.59%	14.28%	14.05%	30.93%	2.79%	10.94%	11.28%	7.58%	-0.47%	9.57	13.21%	
4	IIFCs	1063.11	5390.49	6453.60	557.43	5383.18	5940.61	900.72	1403.45	502.73	927.86	1683.13	91
		82.96%	66.69%	68.91%	24.67%	97.17%	76.17%	80.87%	86.30%	98.09%	52.10	72.83%	
5	**All IFIs**	**1281.43**	**8082.56**	**9364.00**	**2259.26**	**5540.08**	**7799.34**	**1113.74**	**1626.27**	**512.54**	**1780.78**	**2310.87**	**144**
		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Consolidated and Comparative Economic Performance Ratios of IFIs 1994-95 to 1998-99

Table No. 6.5 **(In %)**

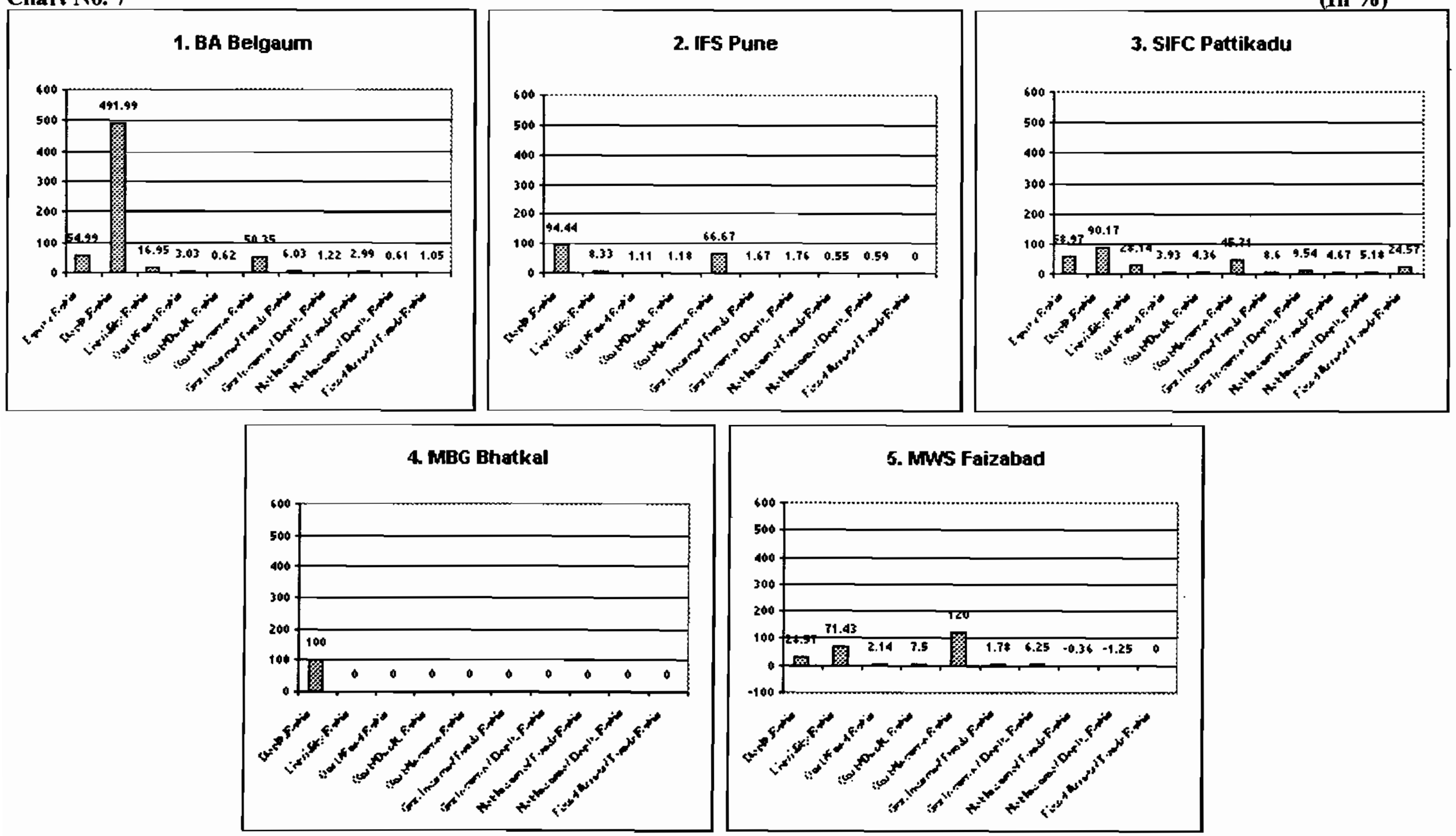
Sl. No.	Institutions	Equity Ratio	Deplt. Ratio	Liquidity Ratio	Cost / Fund Ratio	Cost / Deplt. Ratio	Cost / Income Ratio	Gross Income / Fund Ratio	Gross Income / Deplt. Ratio	Net Income / Fund Ratio	Net Income / Depl. Ratio	Fixed Assets/ Fund Ratio
1	2	3	4	5	6	7	8	9	10	11	12	13
I.	FAPs	46.72	374.0	25.1	2.9	0.78	51.61	5.62	1.5	2.72	0.73	3.78
II.	IFSs	2.66	56.45	44.60	5.53	9.8	88.41	6.26	11.08	0.72	1.28	20.56
III.	ICCS	12.26	64.87	14.8	9.55	14.72	102	9.37	14.44	-0.18	-0.28	23.21
IV.	IIFCs	16.47	92.05	17.2	13.96	15.16	64.18	21.75	23.62	7.79	8.46	26.08
V.	All IFIs	13.68	83.29	22	11.89	14.28	68.48	17.37	20.85	5.47	6.57	24.68
	I. FAPs											
1	BAB	54.99	492	17	3.03	0.62	50.35	6.03	1.22	2.99	0.61	1.05
2	IFSP	NIL	94.44	8.33	1.11	1.18	66.67	1.67	1.76	0.55	0.59	NIL
3	SIFC	58.97	90.17	28.1	3.93	4.36	45.71	8.6	9.54	4.67	5.18	24.57
4	MBG	NIL	100	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL	NIL
5	MWS	NIL	28.57	71.4	2.14	7.5	120	1.78	6.25	-0.36	-1.25	NIL
	II. IFSs											
1	MFD	NIL	60.51	39.5	3.83	6.34	63.55	6.03	9.97	2.2	3.63	36.14
2	MFN	NIL	43.71	61.4	6.29	14.39	97.28	6.47	14.79	0.17	0.4	18.45
3	TBH	7.15	56.4	26.3	8.67	15.37	100	8.67	15.37	NIL	NIL	15.38
4	BTC	100.00	30.89	-	11.04	35.76	76.31	14.47	46.86	3.43	11.1	1.76
5	I WSB	NIL	94.25	3.42	2.96	3.15	101.1	2.93	3.11	0.01	-0.03	4.62
	III. ICCS											
1	PCCS	100	373.2	-	27.73	7.43	75.8	36.59	9.80	8.85	2.37	325.52
2	BNCCS	10.07	59.4	11.4	8.89	14.97	95.8	9.28	15.62	0.38	0.64	23.98
3	BCCS	10.35	78.37	18.5	14.79	18.67	191.2	7.73	9.87	-7.05	-8.95	7.11
4	NCSCCS	100	96.25	-	1.06	1.1	18.99	5.59	5.81	4.53	4.71	2.97
5	ACCS	31.44	107.1	26.3	11.76	10.99	91.92	12.8	11.95	1.03	0.97	NA
	IV. IIFCs											
1	BLFSL	10.27	106.5	3.3	11.11	10.43	101.3	10.96	10.3	-0.14	-0.13	28.24
2	AFHL	35.08	93.92	21.8	13.39	14.26	29.52	13.39	14.26	31.96	34.04	39.29
3	AIFICL	19.86	96.86	11.2	16.98	17.53	139.5	12.17	12.56	-4.81	-4.97	21.19
4	SSFL	11	76	3.44	14.95	19.67	51.62	28.97	38.11	14.01	18.44	38.48
5	AMMBL	1.01	94.64	48.2	9.45	9.98	100.7	9.38	9.91	-0.06	-0.06	1.3

Note: All The Ratios are based on last Five Year Mean values of Economic performance given in Table no. 6.3.

Consolidated Economic Performance Ratios of FAPs, 1994-95 to 1998-99.

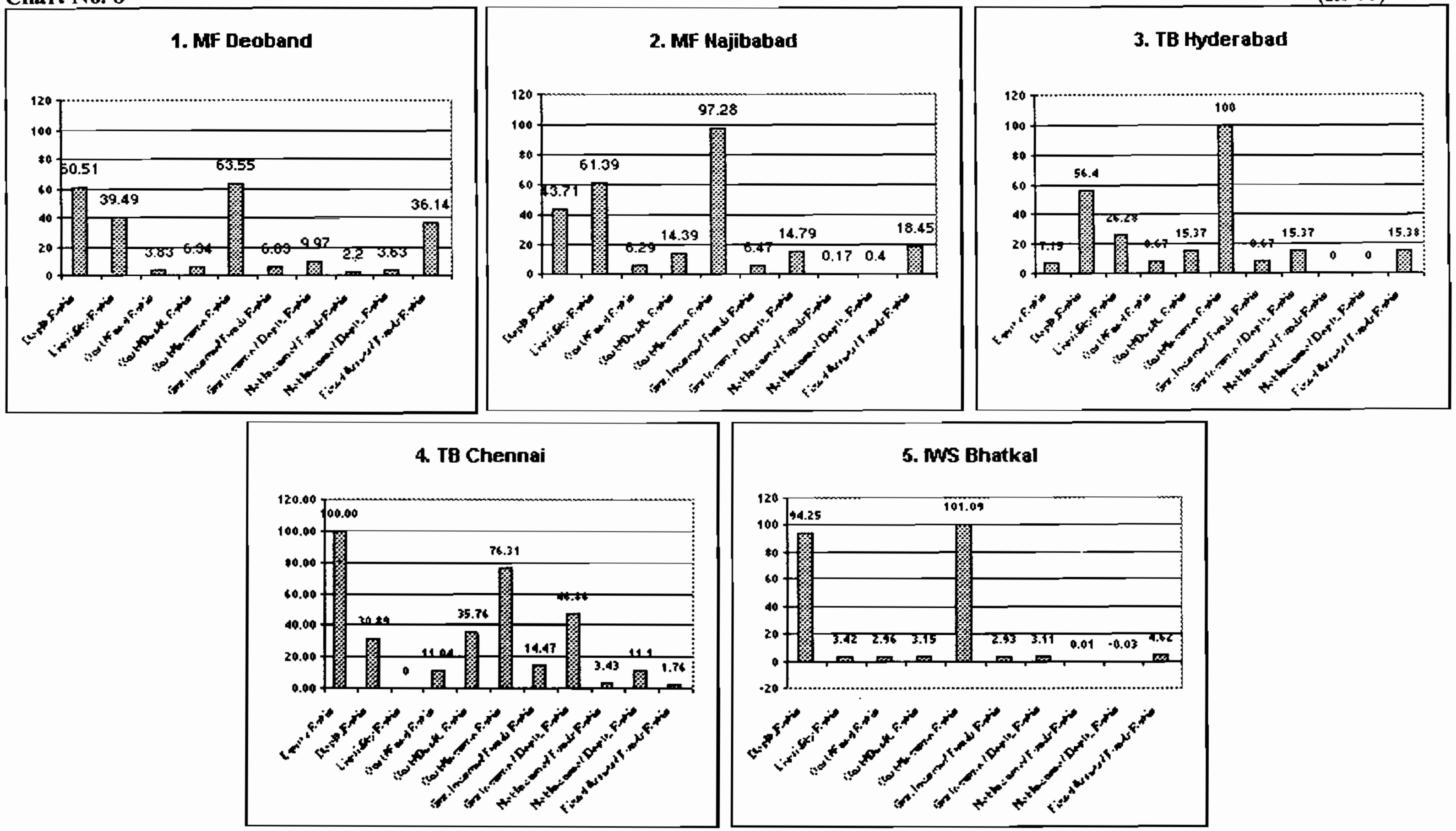
Chart No. 7

(In %)



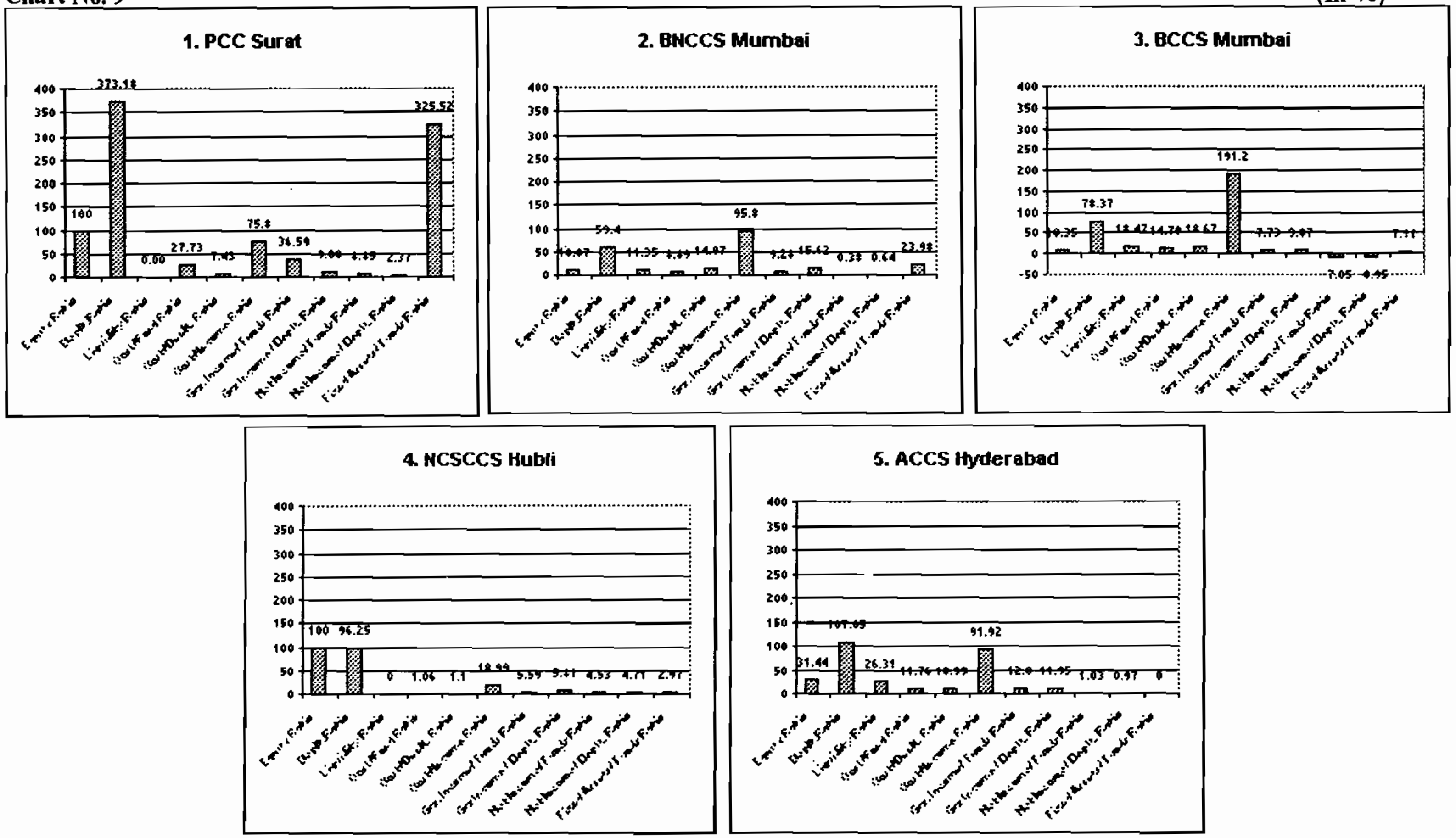
Consolidated Economic Performance Ratios of IFSs, 1994-95 to 1998-99.

Chart No. 8 (In %)



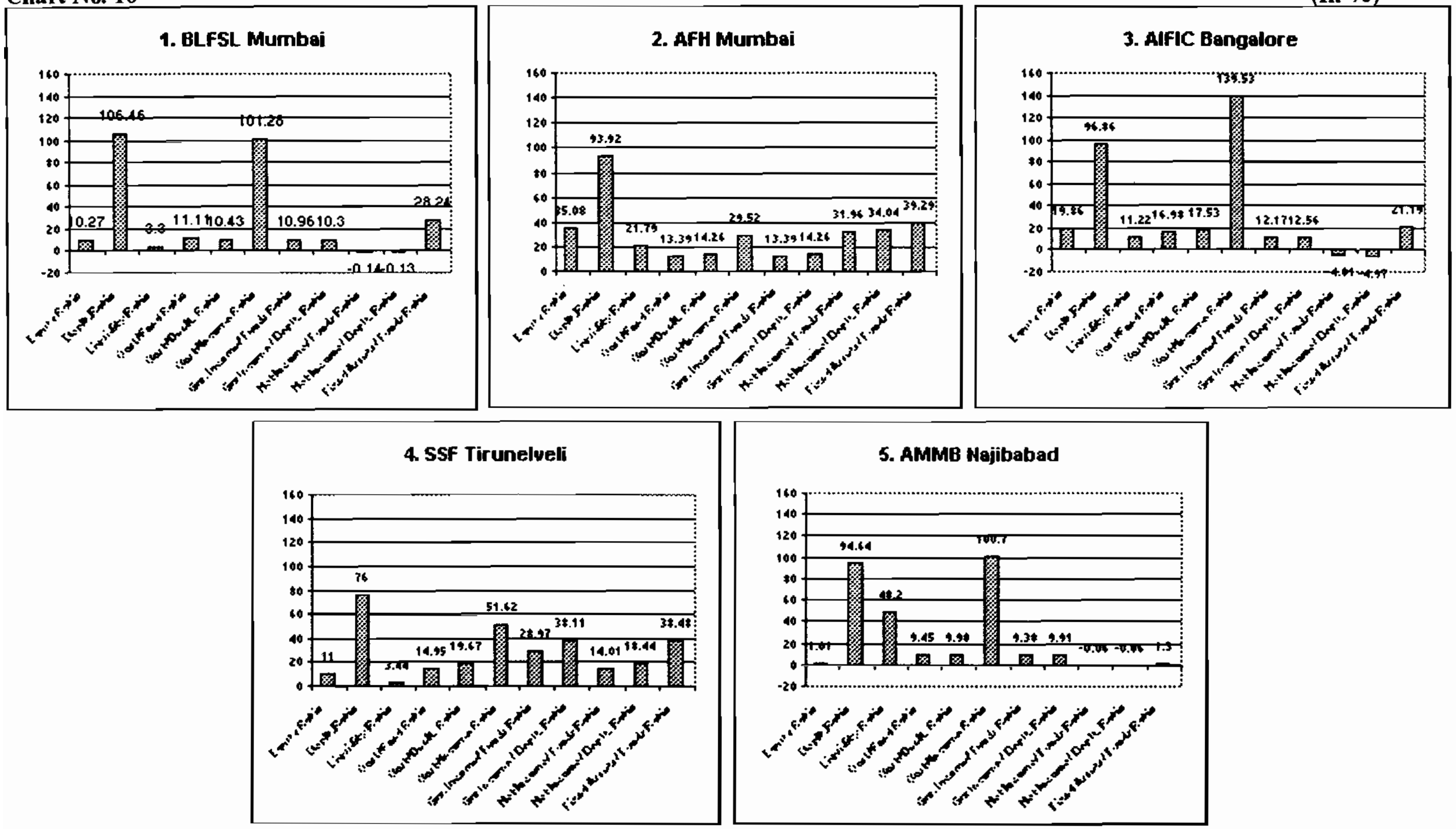
Consolidated Economic Performance Ratios of ICCSs, 1994-95 to 1998-99.

Chart No. 9 (In %)



Consolidated Economic Performance Ratios of IIFCs, 1994-95 to 1998-99.

Chart No. 10 (In %)



Category-wise Consolidated Economic Performance Ratios of IFIs, 1994-95 to 1998-99.

Chart No. 11 (In %)

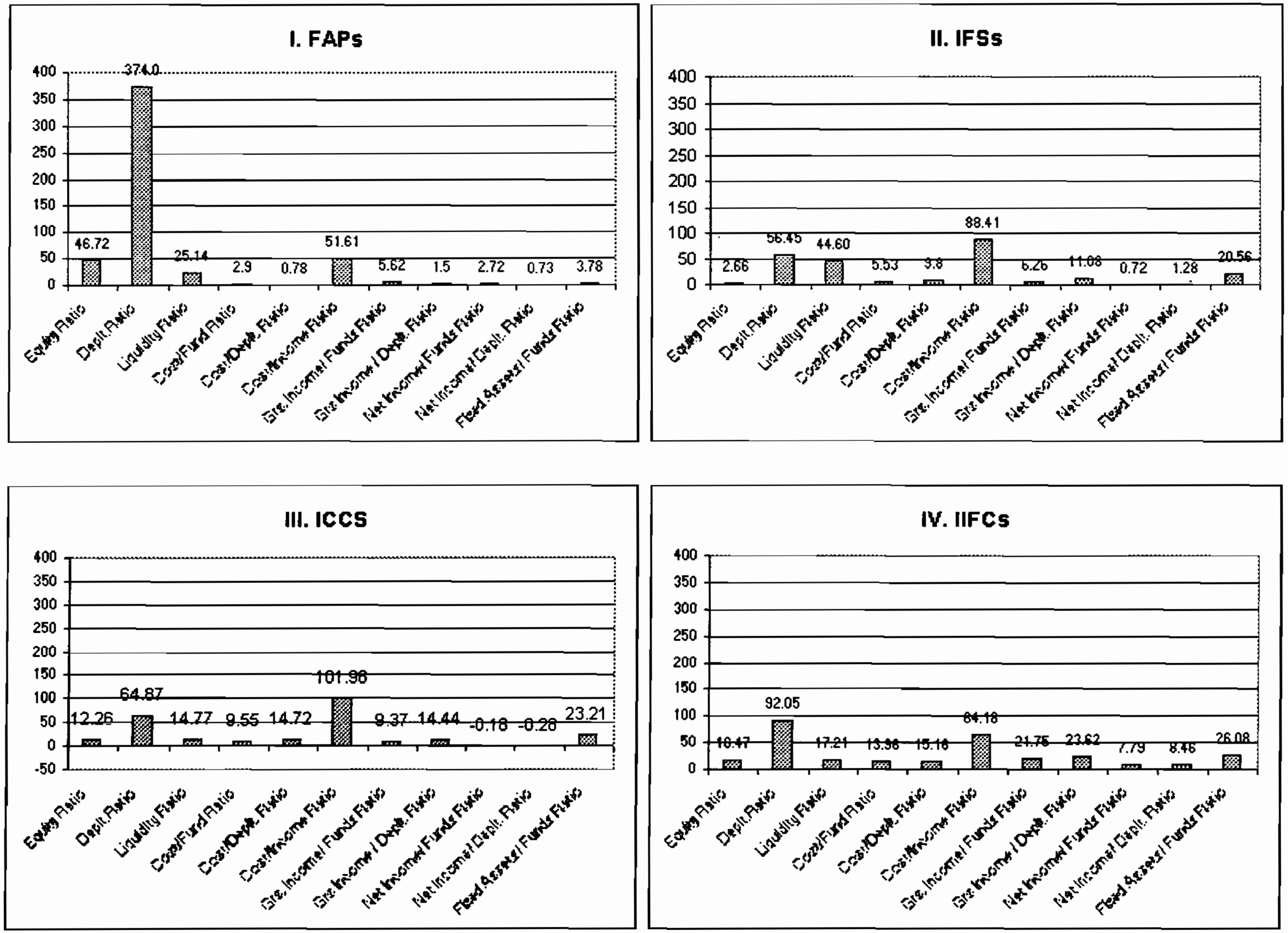
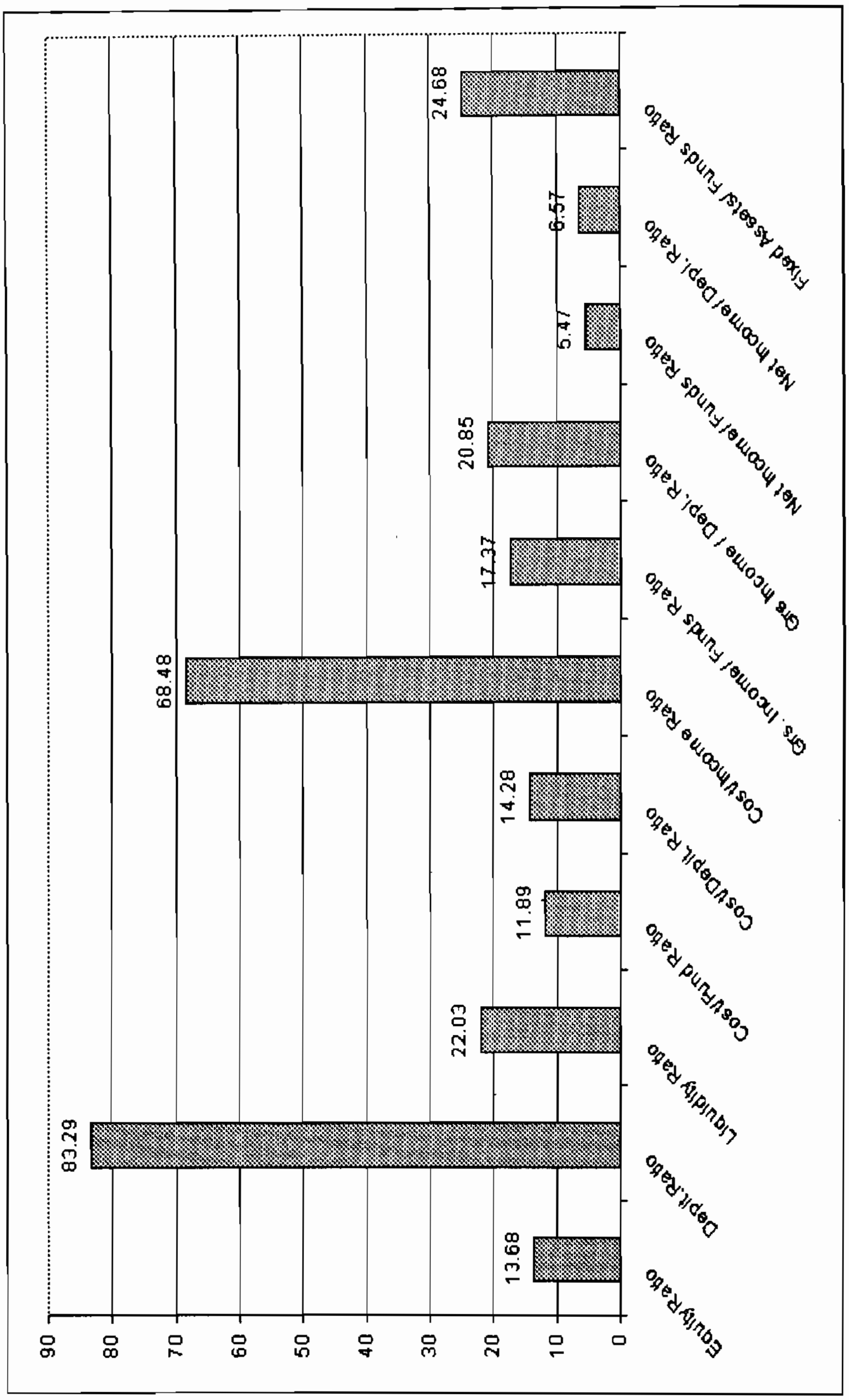


Chart No. 12

Consolidated Economic Performance Ratios of IFIs, 1994-95 to 1998-99.

(In %)



i. Economic performance of FAPs:

Barkat Association of Belgaum (BAB) is the largest Financial Association of Persons (FAPs), even when we calculate 5 year mean economic performance of all the FAPs. The average annual Fund mobilisation of BAB is Rs. 23.73 lakh, its annual average interest-free loans are to the extent of Rs. 116.75 lakh at a Cost of 0.62%, which is just nominal. During the last five years of operations on an average total Funds of FAPs have grown at the annual rate of Rs. 33.07 lakh. Total Fund mobilisation effort of FAPs mostly comprises of Deposits. Some FAPs like Shantapuram Islamic Financial Corporation (SIFC) are also getting some of their Funds by way of Donations and Surplus generated from income earning endeavoRs. The Equity Ratio of FAPs is 46.72%, which is the best amongst all categories of India's IFIs. However except Barkat Association of Belgaum and SIFC none of the other FAPs are having any own funds. Total annual Fund mobilisation by all the FAPs is too small in comparison with all the other categories of IFIs, just 0.35%; because FAPs are tiny, irregular and unorganised endeavours by nature.

Most of the Funds of FAPs are deployed in extension of interest-free loans to its membeRs. Only SIFC has invested Rs. 1.00 lakh in rubber plantations. Deployment Ratio of Barkat Association is exceptionally good at 492%, such a high turnover of loans is because of daily refund of loan installments that is added to the Funds of BAB. Millat Welfare Society has the lowest Deployment Ratio of just 28.57% because of heavy withdrawals rather than loan seeking by its membeRs. The over all Deployment Ratio of FAPs is 374% because of the exceptional loaning performance of BAB. Mutual Benefit Group has Deployment Ratio of 100%, because whatever subscriptions are contributed by members, are immediately disbursed as loan.

FAPs generally provide interest-free loans on no-profit, no-loss basis. Their Operational Costs are also very low because FAPs generally do not have any office or elaborate staff. Hence the Costs as well as Earnings of FAPs are very meager. The Cost / Fund Ratio of BAB the largest FAP is 3.03%. Cost / Deployment Ratio of BAB is much lower at 0.62%, Cost / Income Ratio being 50.35% because of very good loan turnover. The Cost / Income Ratio of SIFC is most favorable at 45.71%, consequently Net Income on Deployment of SIFC is also best at 5.18%, because of its investment of 1.00 lakh. The Net Income / Deployment Ratio of MWS is negative at -1.25% because its Cost / Income Ratio is least favorable of the lot at 120%. The over all Cost / Income Ratio of FAPs is 51.61% and Net Income / Deployment Ratio is 0.73%. However income earning is not the objective of FAPs. The Liquidity Ratio of FAPs is quite satisfactory at 25.14%. MWS has the highest Liquidity Ratio of 71.43% because its cash balances are substantial due to low Deployment Ratio.

ii. Economic performance of IFSs:

Islamic Financial Societies (IFSs) are the fore bearers of Islamic finance in India. Muslim Fund of Najibabad (MFN) is the largest IFS followed by Muslim Fund Deoband (MFD) which is the oldest, Bait-ul-Maals are comparatively smaller in size, because they are mobilising Funds mainly through member's subscriptions and purpose-based Donations. They do not generally mobilise Deposits. Bait-ul-Maal Tamilnadu Chennai (BTC) has been mobilising all of its Funds of Rs. 28.88 lakhs through member's Subscription and purpose-based Donations. TBH Funds are growing at an annual average of Rs. 177.61 lakh, it has Deposit component of only Rs. 12.70 lakh, which is actually 50% of the share of member's refundable Subscriptions. MFD, MFN and IWSB are mobilising all of their Funds through Deposits. IWSB is also mobilising *Zakah* Funds, which are kept separately, hence not included in the study. The Deposits of MFN are growing during last five years at an average annual rate of Rs. 721.74 lakh and those of MFD and IWSB at Rs. 415.04 lakh and Rs. 218.52 lakh respectively. The main problem with Deposits of IFSs is that they are Spot Deposits, collected from the doors of depositors on daily basis. Hence the Fund mobilisation Cost of IFSs is much higher. More over these Spot Deposits are withdrawn more frequently than Current Accounts. Hence IFSs have to maintain comparatively higher liquidity. The Liquidity Ratio of IWSB is the least at 3.42%. The overall annual average Deposits of IFSs are growing at Rs. 1520.20 lakh, and their Liquidity Ratio is highest at 44.60% amongst all the categories of IFIs (Table No. 6.5).

The only important economic function of IFSs besides mobilising Funds is giving interest-free loans, though Islamic Welfare Societies and Bait-ul-Maals are also mobilising and disbursing some ***Zakah*** and ***Sadqah*** Funds. The loan Deployment Ratio of Bait-ul-Maal Tamilnadu is lowest at 30.89%, and highest for IWSB at 94.25%. For MFN the largest IFS of all Deployment Ratio is only 43.71%. The over all-annual average Deployment Ratio of IFSs is only 56.45%, the annual average interest-free loans being Rs. 880.39 lakhs. The deployment of IFSs in PLS Investments is negligible. Only IWSB had invested Rs. 1.31 lakh in furniture leasing. Thus although IFSs specialise in providing interest-free loans, because of the nature of their adhoc Spot Deposits, they are not able to make higher deployment of funds, they have to keep much higher average Cash Reserves of Rs. 678.01 lakh annually, to meet the withdrawal demand of depositoRs.

The total Cost as well as total Income of MFN are highest at Rs. 45.41 lakh and Rs. 46.68 lakh respectively, because it is the largest IFS. Cost / Fund Ratio of MFN is 6.29% and Cost / Deployment Ratio is 14.39%. Cost / Fund, Cost / Deployment Ratios of IWSB are lowest at 2.96% and 3.15% respectively. BTC as well as TBH have highest Cost / Fund as well as Cost / Deployment Ratios of the lot because both of them are deploying substantial portion of their funds in providing various relief grants to downtrodden Muslims, which are not included in Funds Deployed, nor are their Costs calculated separately. The overall Cost / Fund Ratio of IFSs as a group is 5.53% and Cost / Deployment Ratio is 9.80%. The Cost / Income Ratio is more important indicator of the efficiency of IFSs. On the one hand it indicates the Cost efficiency of each Management, on the other hand it shows their recovery of Service Charges. IWSB has the most unfavourable Cost / Income Ratio at 101.09% mainly because it is not successful in recovering full Service Charges. Infact IWSB is the only IFS of the group to have negative Return on Funds as well as Deployment. The Cost / Income Ratio of MFD is most favorable at 63.55% annually because its Net Income is highest of the category at Rs. 9.13 lakh. However both Gross and Net Returns of BTC on Funds are highest in the category at 14.47% and 11.10% respectively, because of lower deployment of funds. The Cost / Income Ratio of TBH is 100%, because it does not earn any income nor does it recover any Service Charges from borrowers of interest-free funds. It recovers the full Costs from member's Subscriptions. The average annual Net Returns of each IFS except IWSB are positive. The average annual Net Returns of all the IFSs as a category for the last five years of their operations are positive, the Net Return / Deployment Ratio is 1.28%, and Net Return / Fund Ratio is 0.72%. Hence the hypothesis that IFSs are unable to recover their Costs is untenable. Infact they are recovering something more than the Costs, perhaps because some of them are also collecting Donations to meet the Cost. However they are not supposed to collect Service Charges in excess of Costs. Hence IFSs have to be more systematic and careful in calculating as well as collecting Service Charges.

None of the IFSs except MFN has any Branches. Only MFN has 29 branches, most of which are operating in U.P in North India. Unlike FAPs, every IFS has some Fixed Assets. MFD the oldest IFS has the most favourable Fixed Asset / Funds Ratio of 36.14 followed by MFN and TBH at 18.45% and 15.38% respectively.

iii. Economic Performance of ICCSs:

Islamic Co-operative Credit Societies (ICCSs) are mobilising their Funds mainly through Share Capital, and Deposits. However two of the five ICCSs are not accepting Deposits. The oldest ICCSs, Patni Co-operative Credit Society Ltd. was initially accepting Deposits, but since 1981, it is raising Funds only through Share Capital. Nehru College Staff Co-operative Credit Society (NCSCCS) is another Society that is not collecting any Deposits. The Equity Ratio of PCCS and NCSCCS is 100%. The overall Equity Ratio of the category is 12.26%. The average annual Equity raised by the group during last five years of their operation is Rs. 161.29 lakh, the Deposits being Rs. 1154.25 lakh and total Funds Rs. 1315.54 lakh. BNCCS is the largest ICCS, accounting for Rs. 1131.66 lakh or 86.02% of total Funds raised. BCCS is the second largest, mobilising Rs. 120.51 lakh or just 9.16% of the group's total Funds. The Equity Ratio of Bait-un-Nas'r is 10.07% and that of BCCS is 10.35%, which needs to be raised to at least 15% as they are depending heavily on Deposits. Al-Ansar Co-operative Credit Society (ACCS) of Hyderabad has an Equity Ratio of 31.44%. The Liquidity Ratio of Bait-un-Nas'r is 11.35% and that of BCCS 18.47% and ACCS 26.31%. PCCS and NCSCCS have good Cash Reserves but no Deposits hence their Liquidity Ratio is not calculated.

ICCSs are deploying their Funds in interest-free loans as well as PLS Investments. However, collectively only 22.12% of their Funds are deployed in PLS avenues. The Deployment Ratio of PCCS is highest at 373.18% followed by ACCS at 107.1%. The Deployment Ratio of Bait-un-Nas'r the largest ICCS is just 59.40% because like IFSs most of its Funds are also raised through Spot and Current Deposits. NCSCCS and BCCS have a Deployment Ratio of 96.25% and 78.37% respectively. PCCS has made proportionately maximum and most affective PLS Investments of Rs. 23.19 lakh, not out of its raised Funds but from Reserve Funds built out of profits from earlier investments. If we add these investments of Rs. 23.19 lakh to the interest-free loans of Rs. 5.47 lakh, total Funds deployed would be Rs. 28.66 lakh and the Deployment Ratio works out to 373.18%. PCCS is the only ICCS which has made bulk of its Investments in PLS Stocks of leading Companies on *Musharakah* basis. However bulk of the Funds of all ICCSs are being deployed in advancing interest-Free Loans as evident from Table No. 6.3 and 6.4..

Bait-un-Nas'r being the largest ICCS, it has highest average annual Costs of Rs. 100.67 lakh during last five years of its operations. The Cost / Fund Ratio of Bait-un-Nas'r is 8.89% although the Cost / Deployment Ratio is 14.97% which is more important indicator of the Society's efficiency level. The Cost / Fund Ratio of PCCS is highest at 27.73 though its Cost / Deployment Ratio is down to 7.43% which shows better managerial performance of PCCS. The Cost / Deployment Ratio of BCCS is highest at 18.87% that has to be brought down if BCCS is to attain a positive Net Income. The Cost / Deployment Ratio of NCSCCS is lowest at just 1.10% because its Costs are lowest. The overall Cost / Fund and Cost / Deployment Ratios of ICCS are 9.55% and 14.72% which are quite high, in fact second highest, in comparison with all the other categories of IFIs. Thus it is obvious that Operational Costs of ICCS are comparatively higher. Hence they have got to earn much higher income if they are to attain positive Net Returns and progress. But the 5-year mean Cost / Income Ratio of ICCSs at 101.96% also shows that their income is lower than Cost. It is mainly because BCCS has as high a Cost / Income Ratio as 191.20%. All the other four ICCSs have less than 100% Cost / Income Ratios. The position will be clearer by taking up the Net Return Ratio of ICCS. The Gross Return on Funds as well as Deployment of all the ICCS are positive. The Net Returns on Funds and Deployment of all the ICCSS are also positive except that of BCCS, which are highly negative at -7.05% and -8.95% respectively. As a result the Net Return / Fund and Net Return / Deployment Ratio of all the ICCS are also negative at -0.18% and -0.28% respectively. Although Co-operative model is more suitable for practicing Islamic financial principles in India, lack of diversified investment portfolio and inefficient management have made it out to be an unattractive model. That perhaps is the main reason for there being only 14 ICCSs in India, only half of which are still operational.

BNCCS the largest ICCS has 20 Branches, all of them are operating in Mumbai. BCCS has three Branches, also in Mumbai, because they are not allowed to open branches outside Mumbai. BNCCS has Fixed Assets / Fund Ratio of 23.98%. PCCS, the oldest ICCS has proportionally largest Fixed Assets, hence best Fixed Assets / Fund Ratio of 325.52%.

iv. Economic performance of IIFCs:

Islamic Investment and Financial Companies (IIFCs) of India are the only commercial financial institutions. They are endeavoring to adopt and apply Islamic financial principles to all financial transactions and earn profits. They are mobilising Funds mainly through Share Capital and public Deposits. Al-Barr / Al-Baraka Finance House Ltd. (AFHL) of Mumbai has the best five-year annual mean Equity Ratio of 35.08% during the last five years of its operations, followed by AIFIC of Bangalore with 19.88%. Barkat Leasing and Financial Service Ltd. (BLFSL) of Mumbai and Seyad Shariat Finance Ltd. (SSFL) have 10.27% and 11.00% average Equity Ratio respectively. Only Al-Najib Milli Mutual Benefits Ltd. (AMMB) has very low Equity Ratio of just 1.01%. The overall Equity Ratio of all the IIFCs is 16.47%. Fund mobilisation effort of AIFIC is best with an annual average of Rs. 1968.99 lakh during the last five years of its operations, followed by SSFL with Rs. 1518.37 lakh, and BLFSL with Rs. 682.56 lakh. However BLFSL has been mobilising Fully Convertible Debentures, rather than Deposits. IIFCs on the whole are the largest mobilisers of Share Capital, Deposits and total Funds.

Liquidity Ratio is an important indicator of a Financial Company's economic health. AMMBL however has an obese Liquidity Ratio of 48.2%, AFH has a healthy five-year mean Liquidity Ratio of 21.79%, followed by 11.22% Liquidity Ratio of AIFICL. SSFL and BLFSL are having rather poor Liquidity Ratios of 3.44% and 3.3% respectively. However all the IIFCs are maintaining Liquidity Ratio as per the norms fixed by RBI, which are rather different. Up to 31.3.1999 NBFCs are required to maintain a minimum of 12.5% of their Deposits in liquid assets i.e. encumbered approved securities. After 1-4-1999 15% Deposits are to be maintained in encumbered approved securities. Where as we have calculated the Liquidity Ratio as the Ratio of Cash Balances in hand and Banks divided by total Deposits, which is also the international method. IIFCs of India are thus maintaining official Liquidity Ratio of 12.5% to 15%, or more by investing part of their Funds compulsorily in RBI approved Securities with pre-fixed returns. This is a serious problem for IIFCs in maintaining 100% Islamic character of their finances.

The proficiency and profitably of an NBFC very much depends on the Deployment Ratio of Funds, Investment Portfolio, Cost and Return Ratio's of the Company etc. The Deployment Ratio of BLFSL is highest at 106.46% because it had deployed even Lease Deposits and Surplus Reserve Funds. However BLFSL had committed the blunder of over investment in risky real estate that had yielded good returns in earlier years. SSF has the least Deployment Ratio of the group at 76.00%, but investment of its funds has been well spread and handled more proficiently. The overall Deployment Ratio of IIFCs is quite healthy at 92.05%. IIFCs of India are although commercial and profit making institutions; they have been also extending humanitarian interest-free loans to the deserving people. Collectively 3 of the 5 IIFCs have provided interest-free loans of Rs. 557.43 lakh annually or 24.67% of total industry's Loans and 9.38% of its own Deployed Funds. AMMBL is leading with an annual average interest-free loan of Rs. 530.12 lakh. Most of the IIFCs of India are deploying their Funds in Leasing and Hire Purchase avenues, followed by *Murabahah* or Cost plus finance. To a lesser extent they are also investing in Stocks of Companies, and Venture Finance. However without the stringent recovery laws and a society with degraded moral standards, it has not been feasible for IIFCs to invest larger sums on *Musharakah* and *Mudarabah* basis, which are more desirable as per the principles of Islamic finance.

Only Deployment Ratio and investment spread is not enough to judge the economic status of a financial concern. Cost and Return Ratios are necessary to determine their proficiency and profitability. Cost-wise AIFICL is spending most at an annual average rate of Rs. 334.41 lakh during the last five years of its operations. Income-wise, annual average Gross Earnings of AFHL are highest at Rs. 548.20 lakh. Cost / Income Ratio of AFHL is the best at 29.52%, followed by 51.62% for SSF. Consequently both these institutions can be termed as most proficient and profitable of the group as well as all the IIFC of India, because the group itself includes the largest IIFCs of India. Moreover most of the other 44 IIFCs identified by this study have either become defunct or freezed their operations because of their inability to cope with the new Prudential Norms imposed by RBI since 1998. Cost / Income Ratio of AIFIC is most unfavourable at 139.53%, followed by 101.28% of BLFSL and 100.70% of AMMBL, which in effect means all these three Companies are incurring losses over the last five years of their operations. The profit or loss making status of these Companies will be clearer if we take up their Gross and Net Income Ratios. The Gross Returns on Funds and Deployment Ratios of all the 5 IIFCs are positive. However Net Return on Funds and Deployment, Ratios of only AFHL and SSFL are positive at 31.96% and 34.04% respectively in case of former, and. 14.01% and 18.44% in case of latter. It means both the AFHL as well as SSFL are making handsome profits on an average during last 5 years of their operations. The Net Return / Funds Ratio as well as Net Return Deployment Ratio of the remaining 3 IIFCs are negative, which means they have been making losses over the last five years. AIFICL being largest, its losses are also substantial at 4.81% of the Funds and 4.97% of the Deployment. Since the Liquidity Ratios of AIFICL and AMMBL are much better at 21.79% and 48.20% respectively than that of BLFSL at just 3.30%, both AIFICL and AMMBL are so far able to absorb losses and continue their operations, where as BLFSL has been forced to freeze its operations. Infact BLFSL has been facing legal action from depositors since 1999.

The overall 5 year average Net Return / Funds and Net Return / Deployment Ratios of entire group of IIFCs are however positive at 7.79% and 8.46% respectively, suggesting thereby that India's IIFCs on the whole are earning profits. More-over all the IIFCs have ample Fixed Assets. The overall 5-year annual average Fixed Assets / Funds Ratio is 26.08%. Together with satisfactory Liquidity Ratio of 17.21% in addition to the official Liquidity Ratio of over 15%, Indian IIFCs appear to be in a better position to absorb running losses. The profits of IIFCs for earlier period (before 1994-95) were higher because none of them had negative Net Returns as they were not affected by economic recession or RBI restrictions. It means the Indian IIFCs were more comfortable and profitable during pre-globalization period of lesser competition than during the post-globalisation period of greater competition.

6.3 Category and Industry-Wise Economic Performance of IfIs.

We have discussed institution and category-wise 5-year mean economic performance of IFIs of India. Let us now discuss the category and industry-wise economic performance of India's IFIs. Table No. 6.4 and 6.5 provide the necessary data, which is presented graphically in Chart No. 7 to 12.

Fund Mobilisation:

All the 20 IFIs of India have been collectively mobilising Share Capital worth Rs. 1237.45 lakh, and Deposits worth Rs. 7936.94 lakh, on an annual average basis during the last five years of their operation from 1994-95 to 1998-99. Total Fund mobilising effort is worth Rs. 9364.00 lakh i.e. Rs. 93.64 million. Equity Ratio of IFIs is 13.68% and Deposit Ratio 86.32%. Some of the IFIs especially IFSs and FAPs are mobilising Funds in the form of membership Fees Subscriptions and Donations, these are the own Funds of IFIs, hence treated as Share Capital. *Sadqah* and *Zakah* funds are also received mostly by IFSs but they have not been included in the study. Since the remaining IFIs of India left out of this study i.e. 272 of them are almost tiny institutions, the total average annual Fund mobilisation of all the IFIs of India may be safely presumed to be over Rs. 1 billion. Thus it can be concluded that if not 93.64%, this study certainly covers over 75% of the Funds and business of total IFIs of India. Hence conclusions drawn from this study will be applicable to entire industry of IFIs of India.

The Total Deposits of Indian Commercial Bank were to the tune of Rs. 7010 Billion in 1997-98, of which Fixed Deposits form 40-45%. India's NBFCs account for about 4% i.e. Rs. 126.18 Billion of these Fixed Deposits[38]. The Total Fund mobilisation of the 20 surveyed IFIs in 1998-99 is Rs. 1.17 Billion i.e. just 0.93% of all the Indian NBFCs. Since our study covers over 75% of the Fund mobilisation of all the Indian IFIs, it is clear that IFIs of India are mobilising only around 1% of the total Funds of all the NBFCs of India. Such a poor Fund mobilisation of IFIs of India may be due to several factors like, lack of statutory recognition; lack of public support due to either ignorance or lower confidence in their performance and proficiency; their inability to perform banking functions; availability of very few reliable profit making IIFCs since over 95% of active IFIs are non-profit financial institutions etc.

FAPs as a group have just 1.05% of industry's Equity, 0.23% of Deposits and 0.35% of total Funds. Truly, even the bigger of them are tiny. IFSs do not have any Equity or Share Capital, their Deposit share of the industry is 17.31% and share of the total Funds is 16.68%. ICCSs have lesser share of 14.52% of Deposits and 14.05% of total Funds of the industry. But they also have 13.03% of the Equity. IIFCs being the largest IFIs they have 85.91% of Equity, 67.92% of Deposits and 68.91% of industry's Funds. FAPs as a category have highest Equity Ratio of 46.72%, followed by IIFCs with 16.47%. IFSs have an Equity Ratio of 12.32%. The Equity Ratio of ICCSs is 12.03%. Overall Equity Ratio of all the IFIs of India is 13.36%.

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38. See Deccan Herald, 24.2.2001, ICICI Seminar Report, Bangalore.

Fund Deployment:

The Deployment Ratio of FAPs is again the best at 373.95% because of the exceptional performance of Barkat Association. It shows that unregulated and personal efforts of tiny FAPs can perform financial wondeRs. Small is indeed beautiful, but only till it remains small ! Of the remaining three categories, IIFCs have best Deployment Ratio of 92.05%, followed by ICCSs with 64.87% and IFSs with 56.45%. IIFCs are deploying most of their Funds in PLS Investments, where as all the remaining three categories of IFIs are deploying most of their Funds in interest-free *Qard-e-Hassan* loans. Together the three categories have provided 75.33% of the total interest-free loans, where as IIFCs have accounted for 97.17% of the total industry's PLS Investments. The over all Deployment Ratio of the industry is 83.29%. Remaining 16.71% funds are used for maintaining liquidity and Fixed Assets of institutions. 28.97% of the Deployed Funds i.e. Rs. 7799.34 lakh are deployed in providing interest-free loans and 71.03% i.e. Rs. 5540.08 lakh are deployed in PLS Investments.

The Liquidity Ratio of IFSs is the highest of the total 44.60%. However it is too high for comfort; it certainly means idle cash in the coffins of IFSs. FAPs too have comparatively higher Liquidity Ratio of 25.14%. ICCSs and IIFCs have satisfactory Liquidity Ratio of 14.77% and 17.21% respectively. Overall Liquidity Ratio of all the IFIs is 22.03%.

Costs and Earnings:

Cost and Return Ratios are the ones, which determine managerial proficiency and economic health of institutions. Cost / Fund and Cost / Deployment Ratios have vital impact on Net Returns or profitability of institutions. Overall Cost / Fund Ratio of all IFIs is 11.89% and Cost / Deployment Ratio is 14.28%. Only IIFCs have a higher Cost / Fund Ratio of 13.98%, because they are deploying Funds in PLS Investments. ICCSs also have a higher than total, Cost / Deployment Ratio at 14.72%. FAPs once again have least Cost Ratios followed by IFSs, because they are engaged in only providing interest-free loans, at least Costs. Cost / Income Ratio of all the IFIs is satisfactory at 68.48%. FAPs have best Cost / Income Ratio of 51.61% followed by IIFCs at 64.18%. IFSs have a Cost Income Ratio of 88.41%, meaning thereby that IFSs are after all earning some income. Ideally they should have a 100% Cost / Income Ratio, so that Service Charges recovered are not more than Cost of providing loans. But let us not hurry to judge them. Service Charges recovered do not make entire income of IFSs, nor are they sufficient for meeting the Costs. Most of the IFSs are also providing some medical and educational services, the fees earned is also added to their income. Some IFSs are also investing in PLS ventures, profits earned are also added to their income. General Donations received are also included in income and used for meeting Costs by some of the IFSs. Because of the prevailing auditing and accounting practices interest earned by big IFSs on mandatory Deposits is also added to their income though it may have been used judiciously in keeping with the rulings of '***Muftis***'. The issue will have to be probed further before passing a judgment on income of IFSs in excess of their Costs. The Cost / Income Ratio of ICCS is most unfavourable at 101.96%, which means that ICCS are not being managed proficiently, thereby making ICCSs as a category unprofitable IFIs. However it will be evident only when we take up Net Income Ratios.

Overall Gross Return on Deployment of all the categories is slightly higher at 20.85% than Gross Returns on Funds, which is 17.37%. Net Return Ratios of the industry are also positive but not attractive. Net Return / Fund Ratio of the industry is 5.47% and Net Return / Deployment Ratio is 6.57%. But industry consists of 3 of the 4 categories of institutions, which are service and not profit oriented. IIFCs are the only IFIs, which seek profit. The Net Return / Fund Ratio of IIFCs is 7.79% and Net Return / Deployment Ratio is 8.46%. Now, is this rate enough to attract more customers and business to India's IIFCs? Those practicing Muslims who desire to earn *Halal* returns on their savings may be the customers of IIFCs because they have no alternative. But 88% non-Muslims of India who have ample alternatives of earnings 12% risk-free income by keeping their savings in fixed accounts of conventional Banks will never join hands with IIFCs, unless they give them higher Returns. Even majority of Muslims who are hooked to contemporary financial institutions and systems will not patronize IIFCs on large scale unless IIFCs improve their proficiency and Returns. Returns from IIFCs must be higher also because their investments are more risk related. State Bank of India offers an interest rate of 5.5% on 90 day Fixed Deposits, Gilt-Edged Mutual Funds offer 10-11% for same period. Therefore IIFCs will have to offer at least 12% for 90 days and more for longer period PLS Investments. Net Returns of IIFCs can be enhanced by either reducing Costs or by increasing Gross Income or Net Returns. India's IIFCs will be better off by following both the routes.

In their present state IIFCs of India on the whole are not attractive or competitive enough to become a viable alternative to the contemporary financial institutions. However as noted earlier two of the five IIFCs namely Al-Barr / Al-Baraka Finance House Ltd. of Mumbai and Seyad Shariat Finance Ltd. of Tirunelveli in Tamilnadu are earning attractive and competitive Net Return on Deployment, of 34.04% and 18.44% respectively. AFHL has very efficient Cost / Income Ratio of 29.52% and SSF has competitive Cost Income Ratio of 51.62%. Both of these have proved that IIFCs are capable of successfully applying Islamic financial principles in India and providing alternative financial practices for earning *Halal* profits. The need of the hour is to spread their professional competence to majority of the IIFCs of India if not all.

The professional competence of Islamic Co-operative Credit Societies of India will have also to be enhanced if they are to survive and flourish. Because the consolidated Net Returns of ICCSs as a whole are negative, their Income being less than Costs. The collective Cost / Income Ratio of all the ICCSs is as high as 101.96%. Their Net Income / Funds Ratio is minus 0.18% and net Return / Deployment Ratio is minus 0.28% much below the average Net Ratio of industry at 5.47% and 6.57% respectively. However, four of the five ICCSs of the group have positive though not satisfactory Net Return Ratios. Only Bait-ul-Maal Co-operative Credit Society of Mumbai has highly negative Returns mainly because its Cost / Income Ratio is highest at 191.20%. The Costs of BCCS are higher perhaps because BCCS is an organ of All India Council of Muslim Economic Upliftment (AICMEU), which is as Islamic NGO with multiple social commitments. Nevertheless ICCSs on the whole will have to reduce their Costs through more efficient management and increase Net Income though better deployment of Funds, including increased PLS Investments.

Net Returns of IFSs and FAPs are marginally positive which is understandable because even they have to build some Fixed Assets for their progress. But the surplus income has to originate from Islamically permissible and other than Service Charge sources. The Net Return on deployment of Funds is 0.73% in case of FAPs and 1.28% in case of IFSs. Some of the FAPs and IFSs do have additional sources of income other than Service Charges, including donations, profits, and subscriptions etc., which account for their positive Net Income.

Fixed Assets:

IFIs as a whole have built reasonably good Fixed Assets worth Rs. 2310.87 lakh. Category-wise 72.83% of these belong to IIFCs, followed by 13.8% of IFSs and 13.21% of ICCSs. Ratio-wise, Fixed Assets / Funds Ratio of the industry is 24.68%. IIFCs have 26.08% Fixed Assets/ Funds Ratio, followed by 23.21% for ICCSs and 20.56% for IFSs. The Fixed Assets of IIFCs also include net value of leased assets. Fixed Assets make financial institution more secure, stable and confident in their business approach. With almost 25% of Fixed Assets and 22.03% of Liquidity Ratio, IFIs of India as whole do enjoy adequate stability and security. If we add the value of jewellary stocks of about Rs. 600 lakh, especially of Muslim Funds and Islamic Welfare Societies, to the Fixed Assets of IFIs, the stability and Security denominator will improve further. With 144 Branches of only 20 IFIs spread all over the country, IFIs have come to stay in India. If they fully utilise the on-going process of economic liberalisation and privatisation by improving their professional efficiency and competitiveness, the IFIs of India may also take off in the first decade of 21st century, along with Indian Economy.

The globalisation linked structural changes being introduced in Indian economy, especially in its financial sector are opening up new opportunities for IFIs in India. The growth of Mutual Funds, especially in private sector, emergence of Venture Capital firms, promotion of equity related investments as a substitute to debt-financing, growing importance of Stock Exchanges, increasing liberalisation of institutional investment as well as direct foreign investment etc. are the positive measures which present new vistas for IIFCs of India.

For instance, 34 Mutual Funds are already managing Rs. 1020 billion in India, in the coming years they are poised for tremendous progress[39]. IIFCs can corner some of their business either independently or in collaboration with other Indian and international financial institutions. If Citibank and ANZ Bank can enter the field of Islamic investments in Indian sub-continent, why not Indians and Arabs join hands to strengthen their historical economic ties!

39. See, Deccan Herald 19. 3. 2001, "Benefits from Mutual Funds" by Bindu Gopal Rao, Bangalore.

CHAPTER 7

PERCEPTION AND PROSPECTS OF ISLAMIC FINANCIAL INSTITUTIONS IN INDIA

Neither ideology nor institutions, least the Islamic financial ideology and institutions can have a better prospect in India unless they are well known and acceptable to people. Public awareness and perception is the key to their prospects. In a plural society like India with diverse religions, cultures and secular economic practices survival and growth of Islamic Financial Institutions very much depends on the people's perception, interaction and experience with these institutions. Therefore future prospect of IFIs of India is in the hands of the people of India, especially Muslims. If Indian Muslims adopt Islamic financial principles and practices, its institutionalization cannot be far away. Unless Muslims themselves steadfastly adhere to the values of interest-free PLS finance and IFIs, they cannot influence and convince non-Muslims, nor create a lobby so essential to influence decision making in a democracy, to get necessary statutory support to establish and manage IFIs in India.

The 20 IFIs of India surveyed in this study have almost 150 Branches operating in different parts of country. But their membership is only in thousands in a country wherein more than 120 million Muslims, at 12% of the total population are residing. The doors of these institutions are open to non-Muslims only in name, as their overall membership is less than 3% of the total. Total Funds mobilised by all the 20 IFIs surveyed in 1998-99 by this study are only about Rs.1.17 billion. Whereas the total annual income share of Indian Muslims is at least Rs.1200 billion at 10% of the Indian NNP. The national saving rate being around 24%, even if Muslims save just 15% of income, their annual savings should be around Rs.180 billion. It means the 20 IFIs that cover over 75% of the efforts of all the Indian IFIs have mobilised just 0.65% of the savings of Indian Muslims ! Is it because IFIs of India do not enjoy the confidence of Indian Muslims ? Or because Indian Muslims are ignorant of the principles of interest-free finance ? Or because IFIs of India have failed to perform and reach out ? It may be for a bit of all and more.

So far we have tried to establish the potential and prospects of IFIs in the light of their economic performance. However assessment of socio-economic performance of IFIs in previous chapters has revealed that even in cases of well performing IFIs such as Toor Bait-ul-Maal of Hyderabad, Al-Barr / Al-Baraka Finance House Ltd. of Bombay, Patni Co-operative Credit Society Ltd. of Surat etc. the% of Muslims dealing with them in respective cities is negligible at less than 1%. To find out an answer to above and related questions, an Awareness Survey of IFIs of India and Islamic financial principles was conducted in 25 Indian cities and towns. The Survey is urban based where the people are supposed to be more knowledgeable. All the cities except eight of them do not have a prominent IFI. All the states that have substantial Muslim population and IFIs have been covered as stated in Table No. 7.1.

Thirty persons from each city, two from each of the fifteen different professions were interviewed with the help of an Interview Schedule (Annex 0.3). 750 persons in all were interviewed, 95 of them being women. Awareness survey findings are presented in Table No. 7.2.

Islamic Financial Institutions Awareness Survey Sample Universe

Table No. 7.1

Sl. No.	City	State	Sample Size	Professional Status
1	Agra	UP	30	Alims / Imams
2	Aligarh	UP	30	Bankers
3	Deoband	UP	30	Doctors
4	Najibabad	UP	30	Engineers
5	Delhi	Delhi	30	Farmers
6	Gurgaon	Haryana	30	Govt. Employees
7	Chandigarh	Punjab	30	Graduate Students
8	Bhopal	MP	30	House Wives
9	Patna	Bihar	30	Large Businessmen
10	Ajmer	Rajasthan	30	Mechanics
11	Baroda	Gujarat	30	Pavement Sellers
12	Surat	Gujarat	30	Private Employees
13	Mumbai	Maharashtra	30	Rickshawallas
14	Pune	Maharashtra	30	Small Shop keepers
15	Sangli	Maharashtra	30	Teachers
16	Bangalore	Karnataka	30	
17	Belgaum	Karnataka	30	
18	Bhatkal	Karnataka	30	
19	Dharwar	Karnataka	30	
20	Mysore	Karnataka	30	
21	Kudachi	Karnataka	30	
22	Chennai	Tamilnadu	30	
23	Calicut	Kerala	30	
24	Kasarkod	Kerala	30	
25	Hyderabad	Andhra Pradesh	30	
TOTAL	**25**	**13**	**750**	**15**

Islamic Financial Institutions of India and Islamic Financial Principles Awareness Survey Results, 1998-99

Table No. 7.2

SL.NO.	SUBJECT	YES			NO			TOTAL INTERVIEWS			YES			NO		
		M	F	T	M	F	T	M	F	T	M%	F%	T%	M%	F%	T%
1	Awareness of IFIs?	294	29	323	361	66	427	655	95	750	44.9	30.5	43.1	55.1	69.5	56.9
2	Awareness of working mode 1 of IFIs	204	30	234	451	65	516	655	95	750	31.2	31.6	31.2	68.9	68.4	68.8
3	Awareness of working mode 2 of IFIs	212	30	242	443	65	508	655	95	750	32.4	31.6	32.3	67.6	68.4	67.7
4	Awareness of working mode 3 of IFIs	97	7	104	558	88	546	655	95	750	14.8	7.4	13.9	85.2	92.6	86.1
5	Awareness of working mode 4 of IFIs	116	17	133	539	78	617	655	95	750	17.7	17.9	17.7	82.3	82.1	82.3
6	Islamic Shariat rules regulating IFIs 1	536	50	586	119	45	164	655	95	750	81.8	54.6	78.1	18.2	47.4	21.9
7	Islamic Shariat rules regulating IFIs 2	125	14	139	530	81	611	655	95	750	19.1	14.7	18.5	18.9	85.3	81.5
8	IFIs for Muslims only?	388	55	443	267	40	307	655	95	750	59.2	57.9	59.1	40.8	42.1	40.9
9	Does Islamic finance lead to Development and welfare?	94	74	668	61	21	82	655	95	750	90.7	77.9	89.1	9.3	22.1	10.9
10	Do you invest in shares ?	199	19	218	456	76	532	655	95	750	30.4	20	29.1	69.6	80	70.9
11	For Speculation 1?	78	17	95	577	78	655	655	95	750	11.9	17.9	12.2	88.1	82.1	87.3
12	For Development 2?	178	19	197	477	76	553	655	95	750	27.2	20	26.3	72.8	80	83.7
13	Will you deposit with IFI ?	538	52	590	117	43	160	655	95	750	82.1	54.7	78.7	17.9	45.3	21.3
14	Will you borrow from IFI ?	445	62	507	210	33	243	655	95	750	67.9	65.3	67.6	32.1	34.7	32.4
15	Do you have an account in any IFI ?	81	16	97	574	79	653	655	95	750	12.4	16.8	12.9	87.6	93.5	87.1

M = Male, F = Female, T = Total

7.1 Awareness Survey Findings

About 55% of the urban Indian men and 69% of women, over all 57.5% of them are totally unaware of the existing IFIs in their own city or around. Only 31% of them know that IFIs mobilise interest-free or Profit and Loss Sharing (PLS) Deposits. Only 32% know that IFIs provide interest-free loans. Only 14% know that IFIs provide funds on PLS basis. Only 18% know that IFIs also provide Leasing or Higher Purchase facility. In other words 69% to 86% of them do not know about the functions performed by the IFIs in India. Although 78% of the urban Muslims know that 'interest is *Haram* 81% including *Alims* and *Imams* do not have the knowledge of any other Islamic financial principles of PLS. This perhaps is the main problem for lack of involvement of Muslim masses with the IFIs of India. Indians including Muslims who are habituated to deal with conventional Commercial Banks for over a hundred years cannot overwhelmingly patronize IFIs without knowing their functions, utility and significance.

Majority of the urban Indian Muslims, 59% believe that IFIs are for Muslims only. 89% of the Muslims believe that interest-free PLS Islamic finance can lead to economic development and welfare. Only 29% of the Muslims invest in Stocks, many of them in the Shares of small Co-operative Credit Societies or Partnership Firms. Only 13% of the investors in Stocks do it for speculative purposes, 26% do it for dividend. This means 61% of them perhaps purchase the shares of Co-operative Credit Societies, which is compulsory if they have to get loans, rather than invest in stocks for dividend earning.

Given the opportunity, 79% of urban Indian Muslims are willing to deposit or invest in IFIs on PLS basis, some of the respondents have said they will invest only if the IFIs are genuine. However fewer Muslims, 68% are willing to borrow from IFIs on PLS basis. This may be because of a comparative lack of entrepreneurship amongst Indian Muslims. Infact, the experience of IIFCs of India is that, the demand for and returns from PLS investments are much less. It may be also because borrowing from IFIs in India has proved to be comparatively Costlier. Finally only 13% of urban Muslims have an account in IFIs. It is interesting to note that fractionally more women than men have their accounts in IFIs. This is because in Muslim Funds and Islamic Welfare Societies where Interest-Free Loans of Rs.5000 to Rs.10000 are given against the security of gold ornaments, women clients outnumber men.

It is evident from the Survey of women respondents that they are more ignorant of IFIs and their functions as well as Islamic financial principles. More women do not know about the existence of IFIs. Only 53% of Muslim women know that interest is *haram*, 85% of them are not aware of any PLS Islamic financial principles. Muslim women also have shown less confidence in the success of IFIs and their potential to enhance economic development and welfare. Comparatively fewer women invest in equities. Much less percentage of women are willing to deposit their savings in an IFI or PLS bank. This may be because women are more ignorant about the existence and operations of IFIs and they are more habituated to deal with traditional banks than men. It may be also because they have less desire than men to expose their savings to higher risks. However more of them are willing to borrow from IFIs on PLS basis.

So long as vast majority of Indians, especially Muslims, are ignorant about the virtues of IFIs and their functions, the prospects for IFIs cannot be very bright. The fact that largest 20 IFIs of India are mobilising less than 1% savings of Indian Muslims shows that they have great potential if they can perform proficiently and reach out more to Muslims as well as Non-Muslims. IFIs and their promoters will have to take special steps to propagate their policies and practices, as vast majority of Indians, especially Muslims including *ulemas* and *Imams* are comparatively unaware of the existence and operations of IFIs. It may be in the best interest of all Muslims to include teaching of Islamic Economics, Banking and Finance in the syllabus of *Dar-ul-Ulooms*. Friday prayer sermons may also be used for preaching Islamic financial principles and practices. Effective performance by IFIs would be however their best propaganda.

CHAPTER 8

CONCLUSIONS AND POLICY IMPLICATIONS

On the basis of the evaluation of economic, social and managerial performance of Islamic Financial Institutions of India in the preceding chapters, we can reach certain conclusion and policy implications.

I. FINANCIAL ASSOCIATIONS OF PERSONS

1.1 FAPs are perhaps the oldest, most widespread and diverse IFIs of India. However it is difficult to call them institutions and enumerate them, because many of them are ad-hoc arrangements without any office. They may be located in commercial streets, educational institutions, mosques or private homes. There may be 200 of them operating throughout India. Only 85 of them have been identified by this study (Annex 1.1)

1.2 FAPs do not have a single format. They are utilising models of different categories of IFIs as per their objectives and needs. They are able to adopt the model of their choice because they are neither registered nor regulated. They belong to un-organised sector of Islamic finance in India.

1.3 FAPs are not peculiar to Indian Muslims. They are formed by needy non-Muslims too. Women too have their own FAPs in India.

1.4 FAPs are small associations of needy people who mobilise their own savings and often provide not only interest-free but cost-free finance. FAPs cost of providing interest-free loans is lowest at 0.78% in comparison with all the other categories of IFIs.

1.5 Some FAPs are investing part of their funds in income earning activities. Part of profits, are also distributed amongst members, though most of the income is used for meeting costs.

1.6 FAPs are smallest IFIs. Average annual fund mobilisation of an FAP is only Rs.6.61 lakh, though their average annual turnover is Rs.24.52 lakh, because some FAPs especially those organised by businessmen have capacity to attain very high velocity of loan circulation.

1.7 FAPs are too small and scattered, besides being unregulated and comparatively un-organised, they do not have much economic or social impact.

1.8 Many FAPs are self-terminating, and generally they have a short life span. However some FAPs are able to elevate themselves in the long run and register either as IFS or ICCS.

1.9 FAPs are serving the credit needs of its members without any hassles and time or money costs of organised financial institutions. Lack of rules and regulations, simple and informal operations, makes them more flexible, popular and acceptable. Hence they will continue to proliferate. They may not experience any dramatic progress or regress. People of small means often find their own ways of helping themselves. FAPs will survive so long as the will of people.

II. ISLAMIC FINANCIAL SOCIETIES

2.1 IFSs are well founded and well spread throughout India. They are non-profit earning, welfare oriented financial Societies mobilising and providing interest-free credit. 144 of them, the largest category, have been identified by this study, though there may be about 200 of them operating in various nooks and corners of India. However their operational size and reach is too small to have a wide spread impact on the economy or society of Muslim India.

2.2 The model of IFSs has been developed and implemented by Indian *Ulemas*. IFSs are the contribution of *Ulemas* to solve some of the socio-economic problems of poor Indian Muslims. Basically the model consists of mobilising pigmy savings of Muslims and providing interest-free loans against the security of jewellery or movable assets. The cost of providing loans is generally recovered from the beneficiaries as Service Charge.

2.3 IFSs are to be found in the form of Muslim Funds mainly in north India, like Muslim Fund Deoband and Muslim Fund Najibabad; Bait-ul-Maals like Toor Bait-ul-Maal of Hyderabad and Bait-ul-Maal Tamilnadu in Chennai and; Islamic Welfare Societies are mainly found in Kerala, Karnataka and Andhra Pradesh. Muslim Funds mobilise Spot Deposits and provide interest-free loans. Bait-ul-Maals and Islamic Welfare Societies besides mobilising savings and giving interest-free loans also mobilise and disburse *Zakah* and *Sadqah* funds. Most of the Interest-Free loans are given only against the security of gold. Where as at least 35% of Muslims, possibly more are living below the poverty line in India.[40] They do not have gold or assets to secure interest-free loans, though they need the *Qard-e-Hassan* loans most. IFSs cannot provide them loans without any security, because they are disbursing loans out of public Deposits that are refundable on demand. The best way for IFSs is to help such people with *Zakah* and *Sadqah* relief funds. Therefore it is necessary for all IFSs of India to also mobilise and disburse *Zakah* and *Sadqah* funds. However *Zakah* and *Sadqah* funds need to be accounted separately including their costs.

2.4 IFSs are the base of IFIs in India. They have taught poor Muslims the benefit of thrift and provided them succor in the form of interest-free loans. On an average they have mobilised Rs.1561.79 lakh annually during the last five years of their operations and provided interest-free loans worth Rs.880.39 lakh. However the average amount of interest-free loan is less than Rs.3000 per member. It certainly needs to be increased to create a better economic impact.

2.5 Contrary to the hypothesis that IFSs are not able to meet their costs, they are fully recovering their costs. Infact their Cost / Income Ratio is 81.41%, because they are also providing some services like health, education etc. or investing in profit and income earning avenues, which they will be better off by increasing in the coming years. However the costs of IFSs are comparatively higher and increasing through the average cost of providing loans is 9.8% during last five years.

2.6 IFSs of India are following different methods for calculating and collecting Service Charges to recover their costs. In the earlier stages of their establishment Service Charges were fixed at random. The costs of performing other welfare-oriented functions like mobilisation and distribution of *Zakah* and *Sadqah* funds, medical and educational services etc. are generally neither calculated nor collected separately. IFSs need to standaradise their practices of calculating and recovering Service Charges.

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40. Note: According to National Sample Survey based Indian Planning Commission and world Bank Reports, 35% of Indians are living below poverty line in 1990s. Muslims being more backward over 40% of them may be living below poverty line.

2.7 IFSs have been enhancing economic welfare of people and creating favorable social impact not only on Muslims but also non-Muslims. Non-Muslims too have started a couple of similar Societies. However IFSs on the whole are catering to only 3% to 5% of non-Muslims, which they need to increase to make a greater socio-economic impact in the coming years.

2.8 In many IFSs women beneficiaries of interest-free loans out-number men beneficiaries. However the overall membership or patronage of IFSs is less than 1% of Muslim population, even in bigger cities wherein IFSs are located. Our *Ulemas* and *Imams* can play a vital role in popularising Islamic finance and IFSs.

2.9 IFSs are generally promoted and managed by amateur social workers rather than professionals, hence their operations are generally not well organised nor very efficient. Their staff is also untrained. They do not follow any standard or uniform accounting, internal-auditing and monitoring practices. Hence there is an urgent need for leading IFSs and IFIs to join hands and start a Research and Training Institution for the benefit of all. The Federation of Interest-Free Organisations of IFIs in India can also take up this responsibility. However the present Federation formed in 1985 is financially and professionally very weak and has become dormant due to lack of co-operation from members. It needs to be strengthened and activised at the earliest.

2.10 IFSs have ample cash reserves and even fixed assets. Infact the Liquidity Ratio of IFSs as a category is highest at 44.60%, in comparison with all the other categories, because their Deployment Ratio is lowest at just 56.45%. Despite the fact that Deposits of IFSs are only Spot or Current Deposit, IFSs must improve their Deployment Ratio and reduce idle cash balances. Excess idle cash does not serve either the cause of IFSs or people. Infact it increases the average cost of loans, and reduces the productivity of Society. Excess Liquidity Ratio also suggests that IFSs are more rigid and less professional in their approach. Lack of co-ordination between IFSs and agreed mechanism to make use of excess liquidity is coming in the way of realising full potential of India's IFSs. A strong Federation of IFSs with state or region-wise offices can develop necessary instruments and mechanisms to utilise excess liquidity over short periods for the benefit of all. Some co-ordination between IFSs and IIFCs can also be thought of to deploy some of the excess liquidity in safe short-term income earning avenues.

2.11 IFSs mobilise most of their funds through daily Spot Deposits. Infact 97.34% of its Funds are Deposit based, the rest belong to subscriptions, fees and donations. However they have absolutely no base of Share Capital or Equity. IFSs do not maintain any reserves to cover bad debts, as their surplus income is generally negligible. Infact IFSs are generally not very particular about recovering their loans. Although they give loans for only 3-6 months, they go on renewing these loans till they are repaid. There is evidence to suspect that majority of IFSs have 10% to 20% or even more bad debts. They have either reduced or stopped personal and property secured loans because of high percentage of their defaulters. The Managements of IFSs are complacent that all their loans are fully secured by gold jewellery, though recent fall in gold prices has increased their worries. Hence it is essential for all the IFSs to properly account outstanding loans for more than one year and build necessary reserves to take care of the bad debts.

2.12 IFSs are not very particular about the purpose for which they extend interest-free loans. Those who can offer security of jewellery get the loans. These loans are generally used more for consumption purposes rather than economic progress. It is advisable for IFSs to provide purpose-based loans, with greater emphasis on small business loans for the self-employment and poverty alleviation of poor.

2.13 Unlike some of the IIFCs, which are fraudulent, exploiting everybody in the name of ***Islam***, IFSs are genuine and sincere in their objectives as well as operations. However in order to keep their costs down they employ either retired or low paid unqualified, untrained staff. As a result their operations are afflicted with professional incompetence and inefficiencies, neither do they maintain proper economic data nor prepare effective reports. Hence IFSs are generally inefficient and least transparent. A Research and Training Institution can be set up either independently or by the Federation of IFSs, that can prepare a Manual of Accounting and Reporting Practices to promote standardised and uniform accounting and reporting practices. A Code of Conduct Manual can be also prepared for the guidance of staff.

2.14 IFSs are in effect Islamic Non-Govt. Organisations (INGOs), but in practice they are not able to adopt the posture of NGOs because of the rigidity of their Managements. Infact IFSs can receive grants from national as well as international NGOs, and also from State and Central Govts, if they can ensure interest-free loans to Indians living below poverty line. Central and State Govts., as well as NGOs who are subsidising and funding several schemes for the benefit of those living below poverty line can be persuaded to assist IFSs also with cost subsidies or grants. While the Union Govt. of India has been subsidising air tickets of Indian *Hajies* for years, in fact the BJP Govt. has increased this subsidy; certainly there should be no difficulty or hindrance in the way of seeking cost subsidy for interest-free loan providing IFSs.

2.15 Though this study has selected largest five IFSs for the study, majority of IFSs are very small in size. Smallest IFIs and the FAPs have proved that small is beautiful. Our neighbouring country Bangladesh has proved that Micro-Credit Institutions[41] (MCIs) can be very effective vehicles of poverty alleviation. A district and state-wise interlinked chain of smaller IFSs can be developed as Interest-Free Micro Credit Institutions (IFMCIs) by combining the models of Barkat Association of Belgaum, Islamic Welfare Society Bhatkal, and MCIs of Bangladesh. A chain of IFMCIs can be established as an effective means of generating self-employment opportunities by providing interest-free loans for those living below poverty line, as a poverty alleviation measure that has become so much necessary in this era of globalisation. Such a scheme can receive statutory recognition of Union as well as State Govts. Thus linking of interest-free micro credit with self-employment and poverty alleviation of downtrodden resourceless Indians can be a golden opportunity for popularisation of Islamic finance in India. Let us not forget that Islam and Islamic principles are for the benefit of entire humanity. Perhaps the best way would be to promote a financial NGOs and organise a district level chain of IFMCIs on experimental basis and also seek recognition and grants from Govt. as well as national and international NGOs.

2.16 Many of the problems of IFSs of India are emerging from lack of a Regulatory Authority. Lack of transparency, diverse accounting and auditing practices, differences in calculation and collection of Service Charges, very high Liquidity Ratio, a nil Capital Adequacy Ratio, problems of doubtful and bad debts and so on, can be solved with the help of Regulatory Authority. An attitudinal problem of Indian Muslims, especially our clergy, perhaps rightly so is that they don't like Govt. regulation of Islamic institutions for fear of changes in their *Shariah*. IFIs are considered by 59.52% of Indian Muslims to be Islamic institutions, meant exclusively for Muslims. More over it is difficult for the secular Govt. of India to promote IFIs as Islamic institutions. Muslims or IFSs themselves have so far failed to develop an effective Federation of IFIs that can monitor and regulate their working. Besides, voluntary Regulatory Agencies are not very effective, because they are not legal tender. In such a situation a better approach to regularise and standardise IFSs would be to accept and implement the above suggestion of converting IFSs into a chain of NGO sponsored IFMCIs. If the chief objective of IFMCIs is to provide interest-free loans of smaller amount to all people living below poverty line, for their self-employment and poverty alleviation; the chances of getting official recognition and assistance will be very bright. Once Govt. recognition and assistance is secured, standardisation of their practices and regulation will follow, just as Registrar of Co-operative Societies is regulating

41. See Kabir Hassan (2000) and Habib Ahmed (2000)

ICCSs and RBI is regulating IIFCs. In the democratic polity of India we too have statutory rights to promote IFSs and IFIs, of course for the benefit of all, with necessary and benevolent regulations.

2.17 FSs of India are so far functioning more as social and welfare oriented organisations, rather than purely financial and economic institutions. However in the coming years they will have to re-orient themselves more as socio-economic entities. They have a rich experience of 38 years and lot of potential in the form of excess cash reserves, infrastructure and good will of people to do it. Spurred by the process of globalisation, the economy of India is undergoing rapid changes. Privatisation and liberalisation along with IT revolution have reduced the world to a global village. Competition, efficiency, survival of the fittest are the new business rules. IFSs will have also to pool their experiences, equip themselves with new technology, computerise, professionalise and modernise their operations; restructure themselves if necessary on the lines suggested above, so that they can make full use of their potential. Only then can IFSs promote Islamic financial principles, face the challenges of new century effectively and serve the cause of Indians in general and Muslims in particular.

III. ISLAMIC CO-OPERAIVE CREDIT SOCIETIES

3.1 The Patni Co-operative Credit Society Ltd. (PCCS) was started at Surat in Gujarat in 1938, though registered in 1942, heralding the institutionalisation of Islamic finance not only in India, perhaps in the modern world. However it did not develop into a movement, may be because of wide spread illiteracy, socio-economic and political backwardness and secluded nature if Indian Muslims who detest Govt. regulation of their affairs. The differences in respective State Co-operative Societies Acts and the Govt. sponsorship of these Societies may have also deterred Indian Muslims from adopting Co-operative model for IFIs. On the contrary IFSs and FAPs have been founded in largest numbers by Indian Muslims, because besides other reasons they are least regulated by Govt. Though this study has identified 14 ICCSs, the five working ICCSs for in-depth study were found after lot of search.

3.2 The Co-operative model is comparatively more suitable especially for smaller IFIs in India. Because, it allows them freedom of deploying funds in interest-free loans as well as PLS investments. Patni Co-operative Credit Society has made best and most successful use of this model. They are able to provide cost-free loans to backward Muslims, and also help them with financial relief out of various purpose-based funds built from surplus profits earned by its investments. However the Co-operative model is not suitable for large IFIs because, the bigger Urban Co-operative Banks have to abide by conventional Banking rules of RBI, which contaminates Islamic nature of these institutions. There are many Urban Co-operative conventional Banks operated by Muslims in India for instance, Al-Ameen's Amanath Urban Co-operative Bank in Bangalore which has recently acquired scheduled Bank status, Mercantile Urban Co-operative Bank of Mumbai etc.

3.3 Bait-un-Nas'r Urban Co-operative Credit Society Ltd. (BNCCS) of Mumbai is the largest ICCS. The Management of Bait-un-Nas'r has been also the champion of developing IFIs of India. It was the first and foremost to have promoted a group of IFIs called Barkat Group of Companies in early 1980's. The Barkat Group led by successful and most popular Bait-un-Nas'r consisted of eight IIFCs, and four partnership firms. However they took up much more than what they could chew. The lack of business experience, required level of professional skills coupled with economic recession led to the demise of Barkat Group of Companies in 1999, affecting the popularity and performance of even Bait-un-Nas'r. The lesson to be remembered is that, with limited professional skills of Management and relatively less competent staff one cannot over-expand and hope to succeed in the bigger league.

3.4 The economic performance of ICCSs as a whole is not very satisfactory. Their Liquidity Ratio is 12.26%, Deployment Ratio is only 64.87%. Both the ratios are just higher than the Ratios of IFSs. The 5-year mean PLS Investments of ICCSs as a Category are only 2.79% of total investments of the industry. The Cost / Deployment Ratio of ICCSs is 14.72, just higher than those of IFSs and Cost / Income Ratio is highest amongst all categories of IFIs at 101.96%. The Net Return / Deployment Ratio is negative at -0.28%, meaning thereby that ICCSs are making net losses. However if we study the individual economic performances of ICCSs it will be clear that only Bait-ul-Maal Co-operative Credit Society's performance is unsatisfactory. All the remaining 4 ICCSs are performing reasonably well. None of them has negative Net Return. By improving the PLS Investments and overall Deployment Ratio, ICCSs can improve their performance and earnings. Thus we can say that 80% of the ICCSs are performing well and more small scale ICCSs can be certainly started in India.

3.5 ICCSs of India are functioning more like welfare oriented IFSs rather than commercial organisations. On an average 81.89% of their Deployment is in provision of interest-free loans, only 18.11% of the Deployment is in PLS avenues. Like Bait-ul-Maals some of the ICCSs are also providing purpose-based relief grants to worse-off Muslims. ICCSs as a group would do well to adopt more commercial approach and invest larger funds in PLS activities. So that they are able to earn as well as disburse dividends to its Shareholders. At present none of the 5 ICCSs are disbursing any dividend to their Shareholders. Whatever income earned is being used for meeting the costs and providing purpose-based relief.

3.6 The total annual average Deposits mobilised by ICCSs during last 5 years are worth Rs.1154.25 lakh, forming 14.28% of industry's total Deposits. Where as annual Deposit mobilisation of IFSs is higher at 17.31% of the total. The ICCSs can possibly increase their annual Deposit mobilisation by giving more attention to collection of Investment Deposits and deploying more funds in PLS Investments, thereby earning and distributing dividends. There is a limit to the mobilisation of interest-free Deposits, because people's ability to save without earning income is limited. They will offer only a limited portion of their savings as safe *Amanah* Deposits, without any income. Hence ICCSs would do well to give equal importance to mobilisation of Investment Deposits, invest them in PLS avenues, earn and distribute profits, so that they can achieve higher growth.

3.7 The managerial efficiency of ICCSs can be judged from their Cost Deployment and Income Ratios. The Cost / Deployment Ratio of ICCS as a Category is very high at 14.72%. In other words ICCSs Managements have failed to control their cost escalation, which does not reflect well on their proficiency. BNCCS of Mumbai has as many as 20 Branches. Its per Branch average Deposit mobilisation is worth only Rs.50.89 lakh and loan disbursements Rs.28.28 lakh. Its per Branch loan Disbursement / Cost Ratio is 17.79% which is very uneconomic. Perhaps it would do well to amalgamate or scrap un-economic Branches to reduce Costs. The Deployment and Income Ratios of ICCSs are also not satisfactory as seen earlier. Hence it is obvious that except PCCS that has very satisfactory Deployment, Cost and Income Ratios, all the other ICCSs will have to improve their organisational efficiency and reduce costs if they desire to successfully face increasing competition in the money market.

3.8 Most of the staff of ICCSs is also comparatively incompetent, because they are neither fully qualified nor professionally trained. Little do the Managements realise that lack of expertise and specialisation of their personnel is responsible for lower efficiency and higher costs. Hence sooner the Managements of ICCSs pay attention to proper selection and training of their staff the better. ICCSs could do well to co-operate in forming a strong Federation of IFIs or a Research and Training Institute of IFIs, which could help in training the staff of all categories of IFIs.

Some of the other problems of ICCS like lack of transparency, developing a standard and uniform accounting, internal monitoring and reporting procedure etc., can be also taken up by either the Federation or Research and Training Institute.

3.9 ICCSs like Bait-ul-Maal Co-operative Credit Society, Patni Co-operative Credit Society etc. are investing part of their funds in PLS avenues such as Hire-Purchase, Leasing, Equity of private Companies etc. but no separate investment-wise returns data of Costs and Returns is maintained or reported. As a result judging the productivity and profitability of these investments and future planning is not feasible. BCCS is also collecting Investment Deposits, but the Returns paid to depositors and the rate of payments, are neither explained nor reported. Data about doubtful and Bad Debts is also not maintained or reported. These are in fact common problems of all the categories of IFIs, which need to be taken up collectively. Lack of professionalism and full involvement of promoters with the IFIs including ICCSs are the real cause. These institutions are often used by promoters as platforms for indulging in various types of social work. The staff of these institutions is also used for such work. As a result their commitment to the institution and performance suffers.

3.10 Two of the five ICCSs surveyed viz. PCCS and ACCS, have been promoted by Muslim businessmen. Only the ACCS is being utilised by businessmen for promotion of business. Successful businessmen are managing PCCS as a social responsibility towards members of their community and not for promotion of their own business. Professors have promoted the other 3 ICCSs, again one of them Nehru College Staff Co-operative Credit Society is exclusively for their own benefit and the other two for promotion of Islamic finance and upliftment of backward Muslims. All of these have been rather experimental endeavors. Time is ripe for Muslim businessmen like those of Barkat Association of Belgaum to formulate Businessmen's ICCSs for exclusive promotion of their business. Infact depending on their respective state Co-operative Societies Act., the promoters of Businessmen's ICCSs can think of establishing Islamic Producers and Marketing Co-operative Societies as well to promote their business. However as mentioned earlier, only small ICCSs with just about 100-150 members are likely to be more successful, because their problems will be also less and they can be managed more effectively at lower cost without the lacking professionalism of higher degree.

IV. ISLAMIC INVESTMENT AND FINANCIAL COMPANIES

4.1 IIFCs are the only commercial IFIs established to operate on PLS basis in India. All the other categories of IFIs of India are functioning as non-profit, interest-free loan advancing Societies, geared more to promote social welfare. IIFCs are the only ones to be struggling against all odds to put in to practice as many principles of Islamic finance as possible, and promote profit-earning. This study has identified 49 IIFCs.

4.2 Unfortunately majority of the 49 IIFCs have become defunct by the end of 1999 or early 2000. Less than 20% are still functioning. The leading and immediate reason for their collapse is the new Prudential Norms for NBFCs, implemented by RBI in 1998. These Norms sought fresh RBI registration, especially of public Deposit accepting Companies, minimum Capital Adequacy, Statutory Liquidity, disclosure norms and acquisition of satisfactory Credit Rating by approved Rating Agencies etc. Most of the IIFCs could not fulfill these norms. Hence those whose applications were rejected had to close down and those whose applications are still pending had to freeze their operations or slowdown. Perhaps these were the banana institutions that did not have necessary professional dynamism and economic strength to reorient, restructure and fulfill new Prudential Norms, which were actually brought in place for strengthening the NBFCs and safeguarding depositor's interests.

4.3 Most of the IIFCs operating in Delhi, Lucknow, Hyderabad, Mumbai and Calicut have either stopped functioning or reduced their operations due to non-registration by RBI. 14 of the 16 IIFCs of Delhi that failed belonged to two of the large Groups of Islamic Financial Companies viz. Al-Falah and Al-Fahad Investments. 10 of the 3rd and largest Group of IIFCs belonging to Barkat Group of Companies of Mumbai have also failed. However the failure of Barkat Group is due to business failure caused by sudden slump in real estate market in which they had deployed most of their Funds.

4.4 The IIFCs established in 1980's were mostly promoted by over enthusiastic faithful, or greedy opportunists to encash the Islamic sentiments of Muslim masses. Unfortunately some *Muftis* and *Alims* too endorsed or associated their names with such institutions without knowing the details of what the institutions were doing, without understanding the complexities of modern financial norms, without understanding the implications of their action. As a result some of the incompetent and dubious IIFCs got the false authenticity, especially in Delhi and Hyderabad, which must be avoided in future.

4.5 There may be several other causes for the failure of majority of IIFCs. This itself can be a separate topic of research. However the unfortunate failure of all the three Groups of Islamic Companies cannot be just a co-incidence. The most significant common factor responsible for their failure is professional incompetence. It is evident from the review of all the categories of IFIs also that majority of their promoters and personnel are unqualified and untrained in either Islamic finance or conventional finance. It is high time that a Research and Training Institute of IFIs is established by the co-operation of all IFIs. IIFCs being the largest must take lead.

4.6 An important reason for the failure of so many IIFCs of India is also the ignorance of their customers, of the Islamic financial and investment principles of participation in PLS. They want only a share in profits not losses. Non-adherence of depositors to the principle of participation in PLS in proportion to their Investment Deposits may be either due to ignorance or greed. However it leads to simultaneous demand by most of the depositors for refund of their Deposits which no financial institution can comply with, hence the failure. The survey of Muslims in 25 of the Indian cities has revealed that 81.54% do not know any other Islamic finance principle, apart from the basic one that interest is *Haram*. It's startling to know that many of the *Imams* and *Alims* also do not know them. Under the circumstances it is imperative for all the IIFCs to enlighten PLS rules to every depositor, in oral as well as writing, at the time of accepting Deposits. Infact it should be clearly mentioned as a term of contract while accepting Investment Deposits. Unfortunately in the eagerness to mobilise more Deposits the staff of IIFCs ignore this fact. On the contrary they harp much more on high profitability of Islamic Investment Deposits. This must be stopped forthwith. IIFCs must enlighten the Depositors and customers about their business dealings and financial principles.

4.7 Lack of transparency is a major problem of Indian IIFCs. It is mandatory for all Companies to provide Annual Reports containing performance accounts of the Company to its Shareholders. But depositors are provided only the promotional broachers of the Company. When interviewed in Delhi depositors of AL-Falah and Al-Fahad Companies have revealed that they did not know anything about these Company's accounts. Our repeated efforts to seek economic performance data of several Companies also met with failure. Although lack of transparency is a general problem of most of the NBFCs, it is only the dubious Companies, which do not provide any economic information at all. Part of the blame for lack of transparency must also lie with gullible depositors, who are easily lured by the promise of high returns and do not insist on knowing or acquiring audited annual accounts of the Companies. However not even 1% Muslim depositors may know what a Company's Balance Sheet is and how is it to be interpreted, because after all a Balance Sheet is always balanced.

The problem with reporting and transparency of even genuine IIFCs is that, their accounting and reporting practices do not fully depict the Islamic practices and nature of their institutions. They do follow the accounting and reporting norms fixed by RBI, but the additional information that establishes the Islamic character of their finances is lacking. For instance in order to maintain SLR as well as for safe keeping they have to keep their funds in Commercial Banks, Govt. Bonds, Securities and Certificates etc., the interest-income accruals and their uses must also be reported separately. The nature and rate of Bonus paid to depositors is also not explained.

4.8 The need for establishing Islamic credentials of IIFCs is felt also because 3 of the 5 IIFCs surveyed for this study do not have any *Shariah* Supervisory body. It is only AIFICL and SSFL, which have mentioned the names of prominent *Muftis* and *Alims* like Qazi Mujahidul Islam Qasmi and Mufti Ashraf Ali etc. But there is no word from them or on behalf of their *Shariah* Boards that indeed the policies and practices of these institutions are in conformity with the principles of Islamic finance. In the absence of such a certificate from *Shariah* Boards, the Islamic authenticity of IIFCs will remain dubious. This is an important factor responsible for controversial practices of some of the IIFCs as well as lack of whole hearted Muslim patronisation of PLS institutions. For instance the nature and % of Bonus disbursed by AIFIC and some other IIFCs to their depositors is not explained. Bonus has been disbursed to depositors even during years when the Companies have made losses. More over this Bonus is treated as a cost rather than a share in profits? Again Al-Barr/ Al-Baraka Finance House of Mumbai has been regularly borrowing from Commercial Banks at 14% interest. It is utilising the borrowed amount for leasing activities and paying interest out of lease income. Therefore it is necessary for every IIFC to have a *Shariah* penal not just for mentioning names in the Annual Reports but for conducting *Shariah* Audit of the Company and issuing a Certificate.

4.9 The economic performance of IIFCs surveyed has been rather satisfactory. These are the largest surviving PLS IIFCs. Collectively their average annual Fund mobilisation during last five years of their operation has been worth Rs.6453.60 lakh, 16.47% of which is collected by way of Share Capital and 83.53% is collected by way of Deposits. Category-wise it forms 68.91% of total Funds mobilized by all the categories of IFIs. 83.41% of IIFCs Funds are being deployed in PLS investments, 8.64% of the Funds are deployed in providing interest-free humanitarian loans. Overall Deployment Ratio of IIFCs is very good at 92.05%. Their Equity and Liquidity Ratios are satisfactory at 16.47% and 17.21% respectively.

It has to be carefully noted that most of the IIFCs of India, which have failed, had relied heavily on Deposit mobilisation rather than maintaining a healthy balance between Equity and Deposits. Although Islamic finance does not prohibit Deposit mobilisation, Equity mobilisation is more desirable so that PLS principle is not compromised at any stage.

4.10 The surveyed IIFCs of India as a group collectively have a reasonable average annual Cost / Income Ratio of 64.18% against the overall Cost / Income Ratio of 68.48% for all the IFIs of India. However the Cost / Fund and Cost / Deployment Ratios of IIFCs which are at 13.96% and 15.16% respectively, need to be brought down so that their profitability can be increased. Only an increasing in the business scale of all the IIFCs that are comparatively very small in size can bring down the average cost of IIFCs. Increase in the operational size of each IIFC and reduction of their operational cost is necessary if they are to effectively face increasing competition from national and Multinational NBFCs in this era of rapid globalization. In order to increase the operational size IIFCs may even consider forging alliances, mergers and collaborations with national as well as international IIFCs. They may also reach out much more to amenable non-Muslim customers. At present their non-Muslim customers are less than 5% in a country wherein non- Muslims population is 88%.

4.11 The average Net Return / Fund Ratio of all the IIFC is 7.79% and Net Return / Deployment Ratio is 8.46%. These are however only gross and not net profits, because taxes have to be paid and provision for necessary Reserves has to be made. The crucial question is, whether the dividend paid to Shareholders of IIFCs is reasonable and competitive ? Three of the IIFCs are having negative Net Returns when calculated as a 5-year mean of their operations. It means even if they have paid dividends for some years they are inadequate. Only two of the IIFCs surveyed viz. Al-Barr Finance

House Ltd. of Mumbai and Seyad Shariat Finance Ltd. of Tirunelveli that have posted satisfactorily annual average Net Returns during last five years of their operations, have been disbursing average dividend of 11.8% and 15% respectively. They have disbursed actual dividend of 12.5% and 16% respectively for the period from 1994-95 to 1997-98. For the year 1998-99 the dividend rate of Seyad Shariat Finance has declined to 10%. If we calculate average dividend of all the IIFCs for the last five years it will be unsatisfactory. The rate of Bonus as share in profits paid to depositors of IIFCs is not very clear, because it is reported as a lump sum in the Costs of Companies, perhaps to avail tax benefits. But no explanations have been given about the rate of Bonus paid and the basis on which it is paid. However it appears that the benchmark of Bonus paid to depositors of IIFCs is the rate of interest paid on Fixed Deposits by the Commercial Banks and other NBFCs. It may be perhaps practically unavoidable, though not a healthy feature, because IIFCs are expected to adopt Islamic benchmarks and be more profitable than conventional financial institutions.

In short we have to note that average profitability of IIFCs as a whole will have to be increased by at least another 10%, so that they can become more secure and competitive, it will have to be achieved by reducing costs as well as by increasing earnings.

4.12 There are some statutory hurdles in the way of IIFCs adhering to principles of Islamic finance in India. Statutory Liquidity Ratio has to be maintained in the form of Govt. approved interest bearing Bonds, Securities and Certificates. The Cash and Reserves have to be maintained in conventional Commercial Banks. The tax laws are also very much in favour of debt based financing rather than PLS finance e.g. interest paid to term depositors is exempted from tax, where as profit payments are taxed, Income Tax exemptions are given on interest earnings but not the dividend income. However with the stringent implementation of Capital Adequacy Norm, RBI is thinking of relaxing or removing the Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio. Regarding the tax on profits, entire industry is lobbying with Finance Ministry for its reduction. In a democracy this is the way to get their voice heard. IIFCs too, or better still, entire IFIs of India should form a Federation, adopt a common strategy, join hands whenever possible with other NBFCs and create own lobby for getting their voice heard. They can make joint representations to the authorities. Where there is a will there is a way.

4.13 Most of the Indian IIFCs were established between 1985 to 1995 by amateurs on experimental basis. The idea, the organisation, the implementation, everything was new for the promoters. Most of them were doing well in their own ways till they were hit by a double tragedy. First there was a prolonged economic recession beginning with 1997, which reduced the profitability of many IIFCs, except the very well managed ones. Then there were the new Prudential Norms imposed by RBI in 1998 that reduced the operational freedom of IIFCs and imposed a financial discipline that was beyond the professional competence of most of them. Inherent financial weakness compelled most of the IIFCs to close down or slow down by 1999. Only the stronger and genuine ones survived.

4.14 After a tentative decade of experimentation, the decade of consolidation has begun for survivors. Three of the IIFCs have received RBI registration. A couple of more including AIFICL are restructuring themselves to obtain necessary competence. No new IIFCs have been established since 1995. A new IIFC called Alternative Finance and Investments Public Ltd., has been registered in Cochin, Kerala, recently. It is engaged in raising the minimum required own capital of Rs. 200.00 lakh. More IIFCs are likely to be started only after the new Company's Act. that is in the offing is released and ongoing financial reforms are completed. But the direction of these financial reforms is already in the sight.

4.15 The successful establishment and progress of Mutual Funds, by most of the nationalised Commercial Banks, national and international NBFCs; diversification of NBFCs and Mutual Funds to Venture Capital firms; increasing dynamism of Indian Stock Exchanges; clamoring of Public Sector Companies like IDBI, ICICI, IFCI etc. for integration and convergence of Banks and Financial

Institutions into a single-type institutions called "Universal Banking"[42], providing all financial services, holds good promise for future growth of IIFCs in India. All of these developments are pregnant with good prospects for IIFCs in the coming years. It is for the existing and new promoters of IIFCs to be alert and agile to grab the emerging opportunities.

4.16 In order to grab the emerging opportunities, IIFCs of India will have to acquire global out-look and competence. Global competence can be achieved only by bigger players hence IIFCs will have to first and foremost increase their size, that is possible only by enhancing their professional skills. If they cannot increase their size single-handedly, they can forge affiliations, alliances and collaborations, even mergers with national or international IFIs. The on-going process of globalisation has made it much more feasible.

4.17 IIFCs of India would do better to acquire the membership of international bodies of IFIs, like Islamic Development Bank (IDB) and the International Associations of Islamic Banks (IAIB) etc. whatever technical, training and information links are possible must be established first. IIFCs of India on their part can pass on the information about increasing investment opportunities in India to IDB and IAIB such as, the process of privatisation and dis-investment in public sector enterprises, increasing liberalisation of foreign institutional as well as direct investments in India. IDB and IAIB etc. can promote institutional as well as direct investments in Indian avenues like IT, infrastructure including international airports and power generation, petroleum products, pharmaceuticals etc., on the basis of Equity Finance or Venture Capital. Either all or at least part of these investments can be conducted through IIFCs of India, for the benefit of both. Neither India's progressive market and its fast growing economy nor 120 million Indian Muslims can be neglected for long by the enterprising Arabs who have had ancient trade and cultural links with India. Revival and strengthening of economic and commercial links will be mutually beneficial. IIFCs can be their best conduct.

4.18 In secular India with just 12% Muslims, there are statutory and socio-economic constraints for rapid progress of IFIs. Inspite of these constraints and overall economic backwardness Indian Muslims are endeavoring to adopt and develop IFIs. What are the constraints for Arabs and dozens of Muslim countries except their lack of will and commitment to Islamic finance that are weakened further by the traditional burden of un-Islamic institutions and practices ? If only their Govt. and People can commit fully, prepare and impliment a well co-ordinated blueprint with the help of IDB to Islamise their own financial and economic systems, they can give a big boost to universal growth of IFIs . American and European Multinational financial institutions like Citibank and ANZ Bank, even MF have already recognised the practicality of Islamic finance. Financial world is keenly watching the progress of IFIs especially in Muslim countries. The progress of IFIs especially IIFCs in India is also waiting for sustenance from the progress of IFIs in the Muslim and other countries of the world.

V. ISLAMIC FINANCIAL INSTITUTIONS OF INDIA

In this section we will draw some broad conclusions regarding the IFIs as an industry in India.

5.1 There are around 300 well founded IFIs in India. They are to be found in most of the Indian states. However they are more concentrated in U.P., Kerala, Maharashtra, Karnataka, Andhra Pradesh, Delhi, Tamilnadu and Bihar. IFIs of India can be classified into FAPs, IFSs, ICCS and IIFCs.

5.2 More than two third of India's IFIs are non-profit interest-free fund mobilising and lending institutions. Though it is difficult to enumerate all of them, 85 FAPs, 144 IFSs, 14 ICCSs and 49

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42. FICCI Seminar Report, Deccan Herald 6.2.2001

IIFCs, 292 in all have been identified. Only IIFCs are fully commercial PLS financial institutions, rest of them are non-profit, welfare oriented economic institutions.

5.3 Non-profit earning IFIs of India are on the whole doing well. Smaller institutions are performing much better than comparatively larger ones, because of the lower operational costs and non-requirement of professional competence. The Cost / Income Ratio of smaller IFIs is also most favourable at 51.61%. Their Deployment Ratio is also much better.

5.4 Comparatively larger IFSs are having very high Liquidity Ratio. They need to deploy more Funds; they should also link their loans more for self-employment purposes. Thereby they can serve the economic needs of backward Muslims much better. They may also increase the per-member amount of interest-free loan that is less than Rs.3000 at present.

5.5 IFSs are generally giving interest-free loans only against the security of gold jewellery. About 40% Muslims living below poverty line in India cannot be expected to provide gold or any security. They can be assisted with only *Zakah* and *Sadqah* grants. Therefore it is necessary for most of the IFSs to arrange for mobilisation as well as disbursal of *Zakah* and *Sadqah* funds, so that 48 million Muslims living below poverty line can find organised relief and succor. At present only some of the IFSs are doing it.

5.6 The Deposits of IFSs are very short term Current Deposits. Saturation is being reached by many IFSs in the mobilisation of these Deposits because long-term depositors expect rightful returns. Hence public Deposits can be increased further for longer term in India, only by promoting IIFCs, which can deploy Funds in PLS Investments and distribute profits to depositors.

5.7 More FAPs, IFSs or Co-operatives can be established in every Muslim locality, especially by small businessmen, so that they can induce economic progress rather than only social welfare, at the grass root level. It is most required in this era of privatisation and globalisation, wherein weaker section's share in national employment as well as income gets reduced because of their inabilities.

5.8 Smaller FAPs, IFSs and ICCSs can be further developed as Interest Free Micro Credit Societies (IFMCSs), providing interest-free credit to economically backward Indians living below poverty line. Such IFMCSs stand a better chance of receiving Govt. recognition and Cost subsidy as poverty alleviating agencies in this era of globalisation and increasing economic hardship to downtrodden Indians. Organising IFMCSs on the pattern of national and international NGOs can attain better organisation, broader acceptance, and statutory recognition. Such an institutional setup will be a major contribution by Indian Muslims for poverty alleviation and well being of entire India.

5.9 The model of Co-operative Credit Societies is generally more suitable especially for smaller IFIs in India. Because, it permits Interest-Free Loan function as well as PLS Investment function. Larger Co-operative Societies are however not very successful in India because of the higher level of managerial proficiency required which is very much lacking.

5.10 Islamic Co-operative Credit Societies are generally lending interest-free loans. Only 11.75% of their funds are invested in PLS avenues. ICCSs are not very popular in India. Less than a dozen are to be found still operational.

5.11 Islamic Investment and Financial Companies are the only commercial IFIs in India operating for profit earning. Economic recession and stricter Prudential Norms imposed by RBI in 1998 have led to closure or freezing of over 80% of the 49 IIFCs in India. Less than ten are found to be still operating.

5.12 The surviving IIFCs are doing rather well. They have acquired the necessary economic strength and fulfilled new Prudential Norms, which are of international standards. However they need to increase their operational size, so that that they can become more competitive by reducing their operational cost and by increasing overall earnings.

5.13 In order to increase operational size IIFCs may have to enter into collaborations with national and international IIFCs. It is feasible as well as desirable in this period of globalisation. The decade of experimentation is over for IIFCs of India. The decade of consolidation and progress is on.

5.14 IFIs as a whole are employing rather unqualified, untrained and low paid staff. Little do the Managements of IFIs realise that incompetent, low paid staff, in the long run increases the costs of institutions rather than reducing them. Managements of IFIs have to understand that expenditure on human capital gives best returns. Arrangements for the orientation and training of their staff need to be made at the earliest, so that their professional competence is enhanced.

IFIs especially IIFCs also need to develop innovative financial products to enhance their business and popularise Islamic financial principles. Standardisation of accounting, internal auditing and reporting techniques of IFIs is also necessary for the growth of all IFIs. A Research and Training Institute needs to be established at the earliest for the benefit of all IFIs. Help may be sought from IDB and similar international bodies for the same.

There are various areas of IFIs and Islamic Financial principles that require further in-depth research, such as Fund Mobilisation and Deployment policies of IFIs; tools and techniques of profit earning and non-profit earning IFIs; risk and return assessment of IIFC's investment portfolio; identification of factors responsible for failure of many Indian IIFCs, especially the 3 Groups of Companies etc. The research and training institute of Indian IFIs can also very well take up such research projects.

5.15 In a democracy like India creation of an active lobby for liaisoning with the Govt. and policy making authorities is essential, for getting the grievances heard and redressal of their problems. All the IFIs of India need to urgently form a strong Federation to represent their problems effectively and seek desirable changes or exemptions in the policy. For instance Federation of IFIs can seek permission for promoting Interest-Free Financial Institutions to help people living below poverty line. The Federation can even seek cost-subsidy for IFSs, which are providing interest-free loans to poor. Federation can also seek exemption of investment in interest bearing Bonds and Securities in order to maintain SLR. Federation of IFIs can join hands with state and national Chambers of Commerce and Industry on certain issues like reduction of taxes on profits, so that relative bias in favour of debt based finance and against PLS finance is eliminated.

The Federation of IFIs can be also helpful in disseminating necessary information to all the units and in attaining uniformity as well as standardisation of their accounting, internal-auditing and monitoring standards, especially of the interest-free lending Societies. The Federation can also monitor and co-ordinate the progress of IFIs. It can even serve as a clearing-house, facilitating money transfer and taking care of excess or shortage of liquidity of some IFIs.

5.16 IFIs of India are patronised by less than 5% Muslims, even in the cities where they are operating. Overall not even 1% of Muslim Population of India i.e 120 million, is involved with IFIs of India. It is clear from the survey of Muslims in the 25 Indian cities that 57.5% of Muslims are not aware of the existence of IFIs. Over 80% of Muslims do not know about PLS functions of IFIs. Only about 32% of Muslims know that IFIs mobilise and provide interest-free loans. About 82% Muslims are unaware of PLS Islamic financial principles. Only 12.78% of Urban Muslims are members of IFIs. About 60% of Muslims think that IFIs are for Muslims only. In view of all this evidence it is imperative for all IFIs along with their Federation and *Ulemas* to enlighten all Indians at the earliest about the Islamic financial principles and operations of IFIs in India, so as to improve their prospects.

5.17 Islamic credentials of some of the IFIs are not very clear. Hence it is advisable for bigger IIFCs to have a *Shariah* Penal who can conduct '*Shariah* Audit' of their financial practices annually and issue necessary certificate in the Annual Report along with Auditor's certificate. Smaller IFIs like FAPs, IFSs and ICCSs can have a versatile *Alim* on the Executive Committee to ensure regular adherence to Islamic financial principles.

5.18 Non-Profit earning IFIs of India require a different Regulatory and Development Authority than PLS IFIs. The PLS institutions are regulated by Govt. through RBI. *Shariah* Audit by a Shariah Penal can regulate and develop Islamic character of IIFCs. However non-profit interest-free FAPs, IFSs and ICCSs, will have to be regulated and developed by the Federation of IFIs.

ANNEXURES

ANNEX 0.1

"ISLAMIC FINANCIAL INSTITUTIONS OF INDIA: Progress, Problems and Prospects"

A Research Project Sponsored by :
Center for Research in Islamic Economics.
King Abdulaziz University, Jeddah, Saudi Arabia.

Ref. No.
Date

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Sub: Gen. Survey

Dear Brother , Assalam-O-Alaikum,

By running an Islamic Financial Institution successfully against all odds, you and your companions are engaged in establishing an alternative system which has potential to usher in all round prosperity. For further growth, rationalization and universalisation of these institutions, I am happy to inform you that I have taken up responsibility of undertaking above research project. The project consists of one general and three stratified sample surveys. The study can be completed only with your help and co-operation.

Kindly fill in the enclosed proforma and return the same along with;

a. Latest Annual Report/ Statement of accounts.
b. Introductory Brochure / Handout of your institution.
c. A copy of special report / write up of your institution.
d. Copy of the byelaws of the institution.
e. Addresses of other IFIs in your neighborhood if any.

Your co-operation InshaAllah will go a long way in helping the growth of Islamic Financial Institutions in India and elsewhere.

May Allah be pleased with our noble endeavors.
Vassalam.

Yours Sincerely

Encl. Questionnaire I.

[Dr.M.I.Bagsiraj]

"ISLAMIC FINANCIAL INSTITUTIONS OF INDIA: Progress, Problems and Prospects"

General Survey

Questionnaire - I

Special Instructions:
i. If any Column is not applicable write N A.
ii. The information asked for in column 7 to 11 pertains to preceding operational / Financial Year.

1. Name of the Islamic Financial Institution : ______________________
____

2. Address : ______________________
____
____

3. Tel No. & STD code : ______________________

4. Year of Establishment : ______________________

5. Registered : Yes / No
   a. Registered with : ______________________
   b. Registration No. : ______________________
   c. Year of Registration : ______________________
   d. Financial / Operational Year of the Institution. : ______________________

6. Area of Operation (City, State or National level) : ______________________

7. No. of Branches if any : Branch Address | Year of Commencement

(Note: Enclose separate list if this space is insufficient)
1.
2.
3.

8. Functions Performed :
   A. Mobilisation of Funds :

		In the First Year	In the Last Year
1. Share Capital	Rs.	________	________
2. Interest-free Deposits	Rs.	________	________
Current Deposits	Rs.	________	________
Fixed Account	Rs.	________	________
Daily 'Bachat'	Rs.	________	________
Total	Rs.	________	________

3. Mudarabah Deposits (Profit Loss Sharing)	Rs.	________	________
4. Zakah Funds	Rs.	________	________
5. Grants / Atiya Fund	Rs.	________	________
6. Reserve Funds (If any)	Rs.	________	________
7. Any other Funds (Please Specify)	Rs.	________	________
	Rs.	________	________
	Rs.	________	________
	Rs.	________	________
B. Disbursal of Funds			
1. Interest-free Loan Given	Rs.	________	________
2. Ijara (Rental / Lease)	Rs.	________	________
3. Murabahah Advance (Immediate Resale)	Rs.	________	________
4. Musharakah Advances (partnership)		________	________
5. Investment in Equities	Rs.	________	________
6. Any other Investments / Advances (Please Specify)			
	Rs.	________	________
	Rs.	________	________
	Rs.	________	________
7. Zakah Disbursal	Rs.	________	________
8. Other Charitable Disbursals	Rs.	________	________
9. Profits Disbursed	Rs.	________	________
10. Total Profits earned by the Institution	Rs.	________	________
11. Profits Diverted to Reserve Fund	Rs.	________	________

9. Total Losses Incurred by the Institution if any	Rs.	________	________
10. Losses to the supplier of Funds	Rs.	________	________
11. Total Operational Costs	Rs.	________	________
12. Value of Fixed Assets if any owned by the institution	Rs.	________	________

13. Main Problem faced by the Institution :
(In order of preference)
1.
2.
3.
4.
5.

Suggestions if any :
1.
2.
3.

Signature & Seal

ANNEX 0.2
"ISLAMIC FINANCIAL INSTITUTIONS OF INDIA:
Progress, Problems and Prospects"

Stratified Sample Survey-I

Questionnaire - II

Instructions:
1. Specify separately any special feature.
2. Data should reflect the position at the end of each financial year.
3. Specify clearly the financial year.
4. If a question is not applicable write NA.
5. Put a (√) in the box if yes , if no (×), if don't know or may be (O).

I. General Information:

1. Name and address of the IFI : ____________________
____
____
____

2. Registered ? : ☐
    i. Registered with : ____________________
    ii. Year of Registration : ____________________
    iii. Year of commencement : ____________________

3. Financial Year of the Institution : ____________________

4. Area of Operation :
    i. Local : ☐
    ii. District Level : ☐
    iii. State Level : ☐
    iv. Inter State Level : ☐
    v. National Level : ☐

5. No. of Branches if any : (Enclose separate list if necessary)

NAME	ADDRESS
i. ____________________	____________________
ii. ____________________	____________________

iii. ______________________ ______________________

iv. ______________________ ______________________

v. ______________________ ______________________

6. Functions Performed:

   i. Mobilisation of Interest-free Funds : ☐

   ii. Mobilisation of Investment Funds on Profit / Loss Sharing basis : ☐

   iii. Giving Interest-free Loans : ☐

   iv. Investment of Funds on PLS Basis : ☐

   v. Collection and Distribution of Zakah : ☐

   vi. Collection and Distribution of Charity: ☐

   vii. Any other Function (Specify) : ☐

7. Principles of Islamic Finance Employed :

   i. Mudarabah ☐ ii. Murabahah ☐

   iii. Musharakah ☐ iv. Ijara ☐

   v. Interest-free Loans ☐ vi. Qard-e- Hassan ☐

   vii. Zakah ☐ viii. Atiya, Khairat & Sadaqah. ☐

   ix. Any Other (Specify) ☐

<u>II. Economic Information:</u> Fund Mobilisation

(A) Interest-free Deposits: (In Rs.)

Year	Current Deposits	Time Deposits	Daily Bachat	Total Loanable Deposits	Zakah Fund	Atiya Fund
1	2	3	4	5	6	7
19	______	______	______	______	______	______
19	______	______	______	______	______	______

1	2	3	4	5	6	7
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						

(B) Profit & Loss sharing (Mudarabah) Shares and Deposits: (In Rs.)

Year	Shares	Short Term Deposits	Medium Term Deposits	Long Term Deposits	Daily Bachat	Total Investment Deposits
1	2	3	4	5	6	7
19						
19						
19						
19						
19						
19						
19						

1	2	3	4	5	6	7
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______

III. Economic Information: Fund Utilization

(A) Interest-free Loans

1. You lend Interest-free loans against what security?

i. Gold	☐	ii. Silver	☐
iii.Property	☐	iv. Household Durables	☐
v. Personal Deposits	☐	vi. Guarantor's Sign	☐

2. Lower and Upper Ceiling of loans? ______ ______

3. Loan Period:

i. Six Months	☐	ii. One year	☐
iii. Two or more years.	☐		

4. Purposes for which Loans are given: (In order of preference 1 to 8)

i. Marriage	☐	ii. Medical	☐
iii. Education	☐	iv. Petty Businessmen	☐
v. Employment Abroad	☐	vi. Consumables	☐
vii. Durables	☐	viii. Any other Purpose	☐

5. Year wise Interest-free Lending (In Rs.):

Year	Current	Time	Daily	Total
1	2	3	4	5
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				

6. Year wise Recovery of Interest-free Loans (In Rs.)

Year	Recovery of Short Term Loans	Recovery of Medium Term Loans	Recovery of Long Term Loans	Total Loans Recovered	Bad Debts if Any
1	2	3	4	5	6
19					
19					
19					
19					
19					

1	2	3	4	5	6
19	______	______	______	______	______
19	______	______	______	______	______
19	______	______	______	______	______
19	______	______	______	______	______
19	______	______	______	______	______
19	______	______	______	______	______
19	______	______	______	______	______
19	______	______	______	______	______
19	______	______	______	______	______

7. Year wise Operational Costs of Interest-free Loans and its Recovery (In Rs.):

Year	Total Operational Costs	Operational Cost Recovered from BorroweRs.	Operational Costs met from other Sources
1	2	3	4
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______

8. Year wise Surplus Funds, Reserve Funds and Fixed Assets if Any (In Rs.)

Year	Surplus Funds	Reserve Funds	Fixed Assets
1	2	3	4
19			
19			
19			
19			
19			
19			
19			
19			
19			
19			
19			
19			
19			
19			
19			

9. How do you recover Operational Costs:

10. How do you settle Bad Debts:

11. Do you calculate and recover the Operational Costs of Managing Zakah and Atiya Funds Separately:

12. Where do you keep your Surplus Funds and Reserve Fund:

i. In own Locker ☐ ii. Current Account of Nationalised Banks ☐

iii. In Any other Way. ☐

<u>(B) Profit and Loss Sharing Investments:</u>

1. Nature and Scope of Investments:

Sl. No.	Nature of Investment	Subject of Investment	Investment of Ceiling	Investment Period	Profit Sharing Ratio	Loss Sharing Loss.
1	2	3	4	5	6	7
1.	Shares	______	______	______	______	______
2.	Ijara	______	______	______	______	______
3.	Murabahah	______	______	______	______	______
4.	Musharakah	______	______	______	______	______
5.	Any Other	______	______	______	______	______

2. Year wise and Nature wise Investments:

Year	Investment In Shares	Ijara Investment	Murabahah Investment	Musharakah Investment	Other Investment	Total Investment
1	2	3	4	5	6	7
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______

1	2	3	4	5	6	7
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______

3. Year wise Recovery of Invested Principals (In Rs.):

Year	Recoveries from Dis-investment of Shares	Recoveries of Ijara Investment	Recoveries of Murabahah Investment	Recoveries of Musharakah Investment	Recoveries of Other Investment	Total Investment Recoveries
1	2	3	4	5	6	7
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______

4. Recovery Dues of Invested Principals if Any (In Rs.):

Year	Dues from Dis-investment of Shares	Dues of Ijara Investment	Dues of Murabahah Investment	Dues of Musharakah Investment	Dues of Other Investment	Total Recovery Dues
1	2	3	4	5	6	7
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						

5. Year wise and Investment wise Profit Earned (In Rs.):

Year	Profit from investment of Shares	Ijara Profit	Murabahah Profit	Musharakah Profit	Other Investment Profit	Total Gross Profit	Profit Dues if Any
1	2	3	4	5	6	7	8
19							
19							
19							
19							

1	2	3	4	5	6	7	8
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							

6. Year wise and Investment wise Losses if Any (In Rs.):

Year	Losses from Investment In Shares	Ijara Losses	Murabahah Losses	Musharakah Losses	Other Investment Losses	Total Losses
1	2	3	4	5	6	7
19						
19						
19						
19						
19						
19						
19						
19						
19						
19						

1	2	3	4	5	6	7
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______

7. Year wise Disbursal of Profit (In Rs.): (Net Profit = Total Profit – Operational Costs)

Year	Total Net Profit	Taxes Paid on Profit	Profit after Tax	Depositor's Profit	Share Holder's Profit	Reserve Fund
1	2	3	4	5	6	7
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______

8. Year wise Distribution of Losses and Fixed Assets if Any (In Rs.)

Year	Share Holder's Losses	Depositor's Losses	Fixed Assets
1	2	3	4
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______
19	______	______	______

9. Year wise Operational Costs (In Rs.):

Year	Salaries	Furniture and Equipment	Rent	Recurring Cost	Miscell-aneous Costs	Total Operational Costs
1	2	3	4	5	6	7
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______
19	______	______	______	______	______	______

1	2	3	4	5	6	7
19						
19						
19						
19						
19						
19						
19						

10. Year wise Operational Costs (O.C) Recoveries (In Rs.):

Year	O.C Recovered From Beneficiaries	O.C Recovered from Profit	O.C Recovered from Other Sources	Total Operational Costs Recovered
1	2	3	4	5
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				
19				

IV. Social Information:

1. Year wise Composition of Share Holders:

Year	No. of Shareholders						
	Muslim			Non-Muslims			
	Men	Women	Total	Men	Women	Total	Grand Total
1	2	3	4	5	6	7	8
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							

2. Year wise Composition of Deposit Holders:

Year	No. of Deposit holders						
	Muslim			Non-Muslims			
	Men	Women	Total	Men	Women	Total	Grand Total
1	2	3	4	5	6	7	8
19							
19							
19							
19							

1	2	3	4	5	6	7	8
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							

3. Year wise Composition of Interest-free Loan Receivers:

Year	No. of Loan Receivers						
	Muslim			Non-Muslims			
	Men	Women	Total	Men	Women	Total	Grand Total
1	2	3	4	5	6	7	8
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							

1	2	3	4	5	6	7	8
19							
19							
19							
19							

4. Year wise Composition of Investment Fund Receivers:

Year	No. of Investment Fund Receivers						
	Muslim			Non-Muslims			
	Men	Women	Total	Men	Women	Total	Grand Total
1	2	3	4	5	6	7	8
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							
19							

5. Do you Advertise your operations? : ☐

6. What is the Average Annual Expenditure on Advertisement? : ☐

7. Would you welcome Non-Muslims to deposit with you or benefit from you increasingly? : ☐

8. Do you propose to take any steps in this Direction: ☐

9. How do you describe the co-operation being received from :

   i. Muslim masses : Full / Satisfactory / Unsatisfactory

   ii. Ulemas : Full / Satisfactory / Unsatisfactory

   iii. Govt. Officials : Full / Satisfactory / Unsatisfactory

   iv. RBI : Full / Satisfactory / Unsatisfactory

   v. Non-Muslims : Full / Satisfactory / Unsatisfactory

V. Managerial Information:

1. What are the operational objectives of your institution?

   i. ______________________________

   ii. ______________________________

   iii. ______________________________

   iv. ______________________________

2. Are you satisfied that the objectives are being attained? ☐

3. If no or partially, give reasons :

   i. ______________________________

   ii. ______________________________

   iii. ______________________________

   iv. ______________________________

4. Do you get Accounts of your Institution audited annually by a competent C.A.? ☐

5. How do you manage your Surplus Funds?

____

____

____

6. How do you manage your Reserve Funds?

____

____

____

7. What is the Management Structure of your Institution?

____

____

8. What is the Staff Structure of your Institution?

____

____

9. What are the Pay scales of your staff?

Officers		Clerical	
i. Senior Officer	Rs. ________	Office Supdt.	Rs. ________
ii. Middle Level Officer	Rs. ________	Sr. Clerk	Rs. ________
iii. Junior Officer	Rs. ________	Jr. Clerk	Rs. ________
iv. Shariat Expert	Rs. ________	Attendant	Rs. ________

10. Do you have any training facility for your staff? ☐

11. Do you think Islamic Financial Institutions have potential to be the alternative to contemporary financial institutions in India? ☐

12. Are you aware of Multinationals like ANZ Investment Bank entering in the field of Islamic Financing in the Sub-Continent? ☐

13. In this era of economic reforms, liberalisation and globalization, you have planned to :
    - i. Expand your operations : ☐
    - ii. Diversify your operations : ☐
    - iii. Approach Govt./ RBI for removal of legal / statutory hurdles : ☐
    - iv. Form a strong Federation of IFIs : ☐
    - v. Establish technical / financial / training / linkages / collaborations with your counterparts elsewhere in the Muslim or outside world : ☐

14. What changes do you desire in Govt./ RBI rules to help the growth of Islamic Financial Institutions?

____

____

____

ANNEX 0.3

"ISLAMIC FINANCIAL INSTITUTIONS OF INDIA: Progress, Problems and Prospects"

Awareness Sample Survey
<u>Interview Schedule</u>

1. Name & Address: ______________________________
____

2. Professional Status: ______________________________

3. Are you aware of interest-free / profit and loss sharing Islamic Financial Institutions operating in India? ☐

4. Are you aware of their working model?
   i. They mobilize interest-free/ PLS Deposits? ☐
   ii. They give interest-free loans of smaller amounts? ☐
   iii. They provide funds for investment on PLS basis? ☐
   iv. They also provide hire- purchase facility? ☐

5. What are the Islamic shariah rules which regulate IFI's acts?
   i. ____________________
   ii. ____________________
   iii. ____________________
   iv. ____________________

6. Do you think IFI's are for Muslims only? ☐

7. Do you think interest-free/ zero interest/ PLS lending can accelerate development and welfare? ☐

8. Do you invest in shares? ☐
   i. You invest in shares primarily for speculative gains? ☐
   ii. You invest in shares primarily for earning dividend and helping development? ☐

9. Given an option will you deposit your savings in an IFI/investment Bank on PLS basis? ☐

10. Given the opportunity will you borrow capital from IFI/ Investment Bank on PLS basis? ☐

11. Do you have an account in any IFI? ☐

ANNEX 1.1

Geographical Distribution of Financial Associations of Persons 1998.

Sl. No.	Institution	Address	State
1	2	3	4
1.	Interest-free Association	Latifi Manzil, 2-0-9, New MukarramPura Karimnagar, Hyderabad - 500002	Andhra Pradesh
2.	Anjuman-e-Imdad-e-Bahmi	Usmania Masjid, IntezarGunj, Warrangal	Andhra Pradesh
3.	Anjuman Muavinul Millath	Fateh Darwaza, Hyderabad	Andhra Pradesh
4.	Muslim Merchants Fund	Babu Camp Colony, Kattegudem – 507107	Andhra Pradesh
5.	Muslim Fund	Darul-Uloom, Rehmania Hyderabad – 500023	Andhra Pradesh
6.	Imdad-e-Bahmi	Pokhrera via Raipur Dist. Seethamarhi	Bihar
7.	Islamic Career Circle	No.15, Zakir nagar, P.O.Azadnagar Jamshedpur – 880001	Bihar
8.	Anjuman-E-Tameer Samaj	Cheepawada, Ahmadabad	Gujarat
9.	Anjuman-e-Imdad-e-Bahmi	2525, Kalupur Tower, Ahmadabad.	Gujarat
10.	Bangalore South Welfare Association	Durgah Mohalla, Old Madras Road Bangalore – 560016	Karnataka
11.	Millat Welfare Trust	A/0, 10, Kolar	Karnataka
12.	Islamic Bait-ul-maal	Anwarpeth, Kolar – 563101	Karnataka
13.	Barkat Association	Brood Galli, Belgaum	Karnataka
14.	Federation	Khade Bazaar, Belgaum	Karnataka
15.	Khwaja Gareeb Association	Bhendi Bazaar, Belgaum	Karnataka
16.	Al-Ameen Association	Darbar Galli, Belgaum	Karnataka
17.	United Commercial Orgnisation	Mujawar Galli, Belgaum	Karnataka
18.	Khidmat Association	Ganpath Galli, Belgaum	Karnataka
19.	Rehmat Association	Camp Area, Belgaum	Karnataka
20.	Razzaq Association	Kaktibes, Belgaum	Karnataka
21.	Mutual Benefit Group	Anjuman College, Bhatkal	Karnataka
22.	Help Yourself Society	JM Traders, 201, Tuko Gunj, Choti Gwaltali, Indore – 452001	Madhya Pradesh
23.	Interest-free Credit Society	29/11, Telephone Colony, Khatiwala Tank, Indore.	Madhya Pradesh
1	2	3	4
24.	Bila Soodi Qarz Scheme	Iqbal Chowk, Hind Buldana	Maharashtra
25.	Aqsa Bait-ul-maal	Masjid Pani Darwesh, Jaina	Maharashtra
26.	Islami Bait-ul-maal	Dulha Gate, Achalpur city, Amaracathi	Maharashtra
27.	Milli Bait-ul-maal	Talim Galli, Nalagaon Taluk, Ahmedpur, Osmanabad – 413524	Maharashtra
28.	Islamic Bait-ul-maal	Phatakpura, Zafar Manzil, Khangaon	Maharashtra
29.	Interest-free Society	Madina Masjid Ghorpade Road, Pune	Maharashtra

30.	Interest-free Credit Society	C/o. Mujahid Electric Networks, Niwais – 304021	Rajasthan
31.	Interest-free Credit Society	Office Jamat-e-Islami Ramgunj Bazaar Jaipur – 302003	Rajasthan
32.	Interest-free Credit Society	Dargah Islam, Raj Ki haveli Maqbara Bazaar, Kota – 324006	Rajasthan
33.	Islamic Bait-ul-maal	Char Minar Masjid Galli, Parnambur	Tamilnadu
34.	Islamic Service Society	Ponani Dist. Mallapuram	Tamilnadu
35.	Welfare Muslim Association	HEAG Road, Parnambur.	Tamilnadu
36.	Mili Awami Society	Manpare, Dist. Behraich	UP
37.	Interest-free Credit Scheme	Surti Hatta Station Road, Basti – 272002	UP
38.	Bait-ul-maal Society	Mohalla Faiz Gunj, Muradabad	UP
39.	Bait-ul-maal	Tanzeem-e-Millat Committee, Mohalla Neeranpur, Tazaida, Tanda Dist.	UP
40.	Bait-ul-maal Society	Bayara Qazi, Dist. Basti.	UP
41.	Bait-ul-maal	Mohalla Bandooqhiyan, Dhampur, Dist. Bijnoor.	UP
42.	Bait-ul-maal Society	Daryabad, Dist. Barabanki.	UP
43.	Bait-ul-maal Islahul Qureesh	Mohalla Nawab, Khas Gunj, Etah.	UP
44.	Bait-ul-maal	Dhampur.	UP
45.	Muslim Awami Society	Faizabad Road, Gonda.	UP
46.	Anjuman Faiz-e-Aam	Nai Badi, AfzalGunj Road, Jaspur, Dist. Nainital.	UP
47.	Islamic Fund	Amjad Khan Road, Najibabad, Dist. Bijnoor.	UP
48.	Falahi Bait-ul-maal	Kashana-E-Islam, Aaja Bazaar, Lukhnow	UP
49.	UP Falah-e-Aam Society	Baheiti, Dist. Bareilli.	UP
50.	Falah-E-Aam Society	Pan Tarbi Chowk, Faizabad.	UP
51.	Islamic Jadeed Bait-ul-maal	Near Jama Masjid, Nageena, Dist. Bijnoor.	UP
1	**2**	**3**	**4**
52.	Islamic Fund	Madrasa Islamia Rehmania Arbia, Tanda, Dist. Rampur.	UP
53.	Milli Awami Society	Prathapgarh.	UP
54.	Muslim Fund	Nathnagar, Dist. Baghalpur	UP
55.	Muslim Bait-ul-maal	Mohammadi, Dist. Lakheempur	UP
56.	Muslim Fund	73, Mufti Street, Meerut city	UP
57.	Muslim Fund	Chowk, Maunath Bhavan, Dist. Azamgarh.	UP
58.	Muslim Imdadi Fund	Khaleelabad, Dist. Basti.	UP
59.	Muslim Bait-ul-maal	Subzi Mandi, Faizabad.	UP
60.	Muslim Bait-ul-maal	Qasba Mohammad, Dist. Lakshmipur.	UP
61.	Muslim Rifahi Society	Mohammed Ali Lane, Guyane Road Luknow	UP
62.	Muslim Bait-ul-maal	Mohalla Marabarat Gunj, Dist. Lakshmipur.	UP
63.	Bila Soodi Scheme	Tarakari Mandi, Chowk, Faizabad.	UP
64.	UP Falah-E-Aam Society	Pani ki Tanki, Chowk, Faizabad.	UP

65.	Millat Welfare Society	Pani Ki Tanki, Chowk, Faizabad.	UP
66.	Bait-ul-maal	FaizGunj, Moraqdabad – 24001	UP
67.	Madrasa Islamia Arabia	Mohalla Purani Haqt, p.o.Baranpur, Dist. Bardwan.	West Bengal
68.	Interest-free Scheme	Bint-27, Lane Sarani, Calcutta.	West Bengal
69.	Islamic Finance Corporation	Edavelangu – 680671.	Kerala
70.	Kodungallur Islamic Finance Corporation	P.O. Enyad, Kodungallur, Trichur.	Kerala
71.	Interest-free Loan Society	Vellimendunu – 673912 Dist. Calicut.	Kerala
72.	Klapamma Darul Amanath	Palisha Rahitha Sahaya Sangam, Alumpeedika, p.o. via Ochira	Kerala
73.	Anpra Islamic Service Society	p.o. Anpram, Angadipuram, Malappuram	Kerala
74.	Darul Amanath	Near Puthur Palli, Changannassari.	Kerala
75.	Islamic Service Bereau	Karuvan Payil, po. Kandikali, via Calicut	Kerala
76.	Ideal Service Assn	Reroke, Calicut.	Kerala
77.	Kadur Muslim Samskarika Samiti	p.o. Nadr Dist. Malappuram	Kerala
78.	Keezhu Paramba Sahaya Sangam	p.o. Keezhu Paramba, via Area Code. Dist. Malappuram	Kerala
79.	Kadanna Islamic Service Society	Kadannamanna p.o. Dist. Kozhikode	Kerala
1	**2**	**3**	**4**
80.	Palisha Rahitha Nidhi	N. Edalthala Alwaya.	Kerala
81.	Palisha Rahitha Nidhi	Chengottur, Malappuram.	Kerala
82.	Palisha Rahitha Nidhi	Chennara Triver Malappuram.	Kerala
83.	Palisha Rahitha Nidhi	Jamat-e-Islami Office Kunnamangalam.	Kerala
84.	Palisha Rahitha Nidhi	Keshuparampa p.o., Dist. Malappuram	Kerala
85.	Shantapuram Islamic Finance Corporation	p.o. Shantapuram, Dist. Malappuram	Kerala

ANNEX 1.2

Geographical Distribution of Islamic Financial Societies 1998.

Sl. No.	Institution	Address	State
1	2	3	4
1.	Commercial Welfare Association	6-2-20, Hanamkonda, Warrangal-506011	Andhra Pradesh
2.	Islamic Welfare Society	New Jama Masjid, Jagtial, Karimnagar.	Andhra Pradesh
3.	Islamic Welfare Society	Madina Library, Jamia Masjid, p.o. Godavari Khami, Karimnagar.	Andhra Pradesh
4.	Muslim Fund	Balo Baisi, p.o. Krishnanandapur, Dist. Cuttak – 754135.	Andhra Pradesh
5.	Toor Bait-ul-maal	Moti Galli, Hyderabad.	Andhra Pradesh
6.	Anjuman Muavinul Millat	623/1, Bazaar Noor Khan, Hyderabad.	Andhra Pradesh
7.	Islamic Welfare & Interest-free Society	52-22, Kurnool – 508001	Andhra Pradesh
8.	Muslim Fund	Slchar, Dist. Kachar.	Assam
9.	Islamia Bank	H Area Road, QRS 88 p.o. box, Bistutpur, Jamshedpur.	Bihar
10.	Muslim Fund	Jamia Masjid Jamshedpur.	Bihar
11.	Muslim Fund	Meherma, P.O. Mandir, Vidhya Peeth, Dist. Baghalpur.	Bihar
12.	Muslim Fund	Chil Mil, via Rajdhura, Dist. Begumsarai	Bihar
13.	Muslim Fund	Madrasa Arabia Islamia, Jahanabad, Dist. Gaya.	Bihar
14.	Muslim Fund	Jahaz Kita, p.o. Box Bisrampur chak, vai Basant Rai, Dist. S.P.	Bihar
15.	Muslim Fund	Samdeegha Bettaiah Dist. Champurah.	Bihar
16.	Muslim Fund	Khatuahi, via Panjwara Dist. S.P.	Bihar
17.	Muslim Fund	Kharwa, p.o. Jamuna, via Dami Joor, S.P	Bihar
18.	Muslim Fund	Ketpura, p.o. Bishambar chak, via Basant Rai, Dist. S.P.	Bihar
19.	Muslim Fund	Jawari Masjid, Karbala Chowk.	Bihar
20.	Muslim Fund	Rupni P.O. Jamunia Damijour, Dist. S.P.	Bihar
21.	Muslim Fund	Ropaspur, Dhamsian, via Nadyami, Dist. Dar.	Bihar
22.	Muslim Fund	Jamat-c-Ulema Office, Aam Gunj, Patna.	Bihar
23.	Muslim Fund	Morney, via Damijour, Dist. S.P.	Bihar
24.	Muslim Fund	Banholi, via Pureni, Dist. Bhagalpur.	Bihar
1	2	3	4
25.	Muslim Fund	Balsaar, p.o. Khirwar, via Pather Gama, Dist. S.P	Bihar
26.	Muslim Fund	Balsaar, p.o. Jamunia, via Damijour, S.P.	Bihar
27.	Muslim Fund Trust	Begum Sarai.	Bihar
28.	Imdad-E-Bahmi	Pokhrera, via Raipur, Dist. Seerthamarhi.	Bihar
29.	Muslim Fund	Hawwari Masjid, Karbala Chowk, Ranchi – 834001	Bihar
30.	Islamic Interest-free Loan Welfare Scheme	Syed Manzil, Sultan Ghani, Patna.- 800006.	Bihar

31.	Anjuman-E-Imdad-E-Bahmi	Near Moorvi Tankara, Memon Jamat Khana, Mandri Gate, Baroda.	Gujarat
32.	Anjuman-E-Imdad-E-Bahmi	Suka Bazaar, post Madosa, Dist. S.K.	Gujarat
33.	Narapuram Antyodaya Kendra	Sharam Sadhna Raopur, Vadodara.	Gujarat
34.	Islamic Welfare Society	Asar Galli, Bijapur.	Karnataka
35.	Islamic Welfare Society	20, Nehru Road, Bhatkal.	Karnataka
36.	Islamic Welfare Society	Near Head Post Office, Bagalkot.	Karnataka
37.	Islamic Welfare Society	Shivaji Circle, Shivajinagar, Bangalore.	Karnataka
38.	Islamic Welfare Society	P.O. Box no. 19, Bhatkal.	Karnataka
39.	Islamic Welfare Society	Near Khuf Thana Masjid, Cow Bazaar, Bellary.	Karnataka
40.	Islamic Welfare Society	Bila Soodi Qarz Scheme, Raichur.	Karnataka
41.	Islamic Welfare Society	Bila Soodi Qarz Scheme, Sidhanoor, Raichur Dist.	Karnataka
42.	Muslim Fund	Katra Medhai , Dist. Prathapgarh.	Madhya Pradesh
43.	Muslim Fund	Darul Uloom, Balha Manorath p.o.Rasoolpur, via Janakhpur Road.	Madhya Pradesh
44.	Janirath Muslim Fund	SN152, Plot No. 59, Madri Road Nayapura, Melegaon, Dist. Nasik.	Maharashtra
45.	Muslim Fund	Madani Masjid, Madani Road, Nayapura, Melegaon, Dist. Nasik.	Maharashtra
46.	Muslim Fund	Naya Bazaar, Kaimtee, Dist. Nagpur.	Maharashtra
47.	Islamic Bait-ul-maal	Phatakpura, Zafar Manzil, Khangaon.	Maharashtra
48.	Noor Bait-ul-maal	97-486, Ghorpadepeth, Pune.	Maharashtra
49.	Bila Soodi Society	Post Marul, Dist. Jalgaon.	Maharashtra
1	**2**	**3**	**4**
50.	Furqaan Bait-ul-maal	Nalagaon, Dist. Latur.	Maharashtra
51.	Muslim Fund	Rawiwarpeth, Jamia Masjid, via Satara.	Maharashtra
52.	Islamic Interest-free loan & Welfare scheme	Sherwani Gate, Maler Kotla - 148023	Punjab
53.	Madrasatul Baqiat	Arabic College, Vellore – 632004	Tamilnadu
54.	Bait-ul-maal Tamilnadu	314, Qaide Millat High School Road, Triplicane, Chennai – 600005	Tamilnadu
55.	Islamic Bait-ul-maal	Porbabut.	Tamilnadu
56.	Islamic Bait-ul-maal	Taj Block, Vaniyambadi – 635751.	Tamilnadu
57.	Islamic Bait-ul-maal	1, Patchiappa, Chotti Street, Chennai	Tamilnadu
58.	Bait-ul-maal	Jamia Masjid, Coonoor – 643192.	Tamilnadu
59.	Islamic Bait-ul-maal	Muthu Rawther, Emerson, Watch House, Coonoor – 643102.	Tamilnadu
60.	Bartin - Nafe	Mufeed-E-Aam Shopping Complex, Kaniyambadi Street, Vaniyambadi.	Tamilnadu
61.	Bait-ul-maal	Post Office Street, Malvishram, North Arcot Dist.	Tamilnadu
62.	Islamic Bait-ul-maal	230, Netaji Road, Old Peth, Krishnagiri.	Tamilnadu
63.	Muslim Fund Deoband	Deoband – 247554.	UP
64.	Interest-free Loan & Welfare Society	222, Gapla Gunj, Lukhnow.	UP
65.	Muslim Fund	Sharkot, Bijnoor Dist.	UP

66.	Muslim Fund	Purana Bazaaar, Maput Dist. Gaziabad.	UP
67.	Muslim Fund	Mohalla Rampura, Najibabad, Bijnoor.	UP
68.	Muslim Imdadi Fund	Nawab Gunj, Safarra Bazaar, Muzaffarnagar.	UP
69.	Muslim Fund	Basi kiratpur, Dist. Bijnoor.	UP
70.	Muslim Fund	Madrasa Tayyaba, Muzaffarnagar, Jansath Dist.	UP
71.	Muslim Fund	Madni Masjid, Chaman Road, Kupa Gunj, Azamgarh.	UP
72.	Muslim Fund	Mohalla Bazaar, Shairikot, Dist. Bijnoor.	UP
73.	Muslim Fund	Near Masjid, Seohara, Dist. Bijnoor.	UP
74.	Muslim Fund	Madrasa Ahayul Uloom, Mubarakpur, Dist. Azamgarh.	UP
75.	Muslim Fund	Madrasa Ishatul Uloom, Pura Maroof, P.O.Kurthi Jafarpur.	UP
76.	Muslim Fund	Madrasa Sadia Eaimul Uloom, Adari, p.o. Indara Dist. Azamgarh.	UP
77.	Muslim Fund	Anjan Shaheed, Dist. Azamgarh.	UP
78.	Muslim Fund	Mohalla Qazipura, Bijnoor.	UP
79.	Muslim Fund	Mohalla Pouroyan, Barout, Meerut.	UP
1	**2**	**3**	**4**
80.	Muslim Fund	35, Ajmal Khan Road, Dehradun.	UP
81.	Muslim Bait-ul-maal	Silgarh Dawa Khana, Rani Chowk, Gorakhpur.	UP
82.	Muslim Fund	Zair Billa, Gazipur.	UP
83.	Muslim Fund Trust	Najibabad – 246763.	UP
84.	Jadeed Islamic Bait-ul-maal	Nagina, Dist. Bijnoor.	UP
85.	Muslim Fund	Chandpur, Dist. Bijnoor.	UP
86.	Muslim Fund	Mahtoor, Dist. Bijnoor.	UP
87.	Muslim Fund	Upper Court, Buland Sahar.	UP
88.	Muslim Fund	Turkuman Gate, Aligarh.	UP
89.	Muslim Fund	Basi Kiratpur, Dist. Bijnoor.	UP
90.	Muslim Fund	Qazipura, Dist. Bijnoor.	UP
91.	Milli Society	Aitia Thok, Dist. Gonda.	UP
92.	Milli Imdadi Society	Behraich.	UP
93.	Milli Imdadi Society	Fakhapur	UP
94.	Milli Imdadi Society	Khurja	UP
95.	Muslim Welfare Trust	Gunjunjdara Etah.	UP
96.	Anjuman Shabab-E-Islam Society	Kacheri Road, Lukhnow.	UP
97.	Quami Imdadi Society	Qasba Namoura, Dist. Bijnoor.	UP
98.	Quami Muslim Fund	Nagina, Dist. Bijnoor.	UP
99.	Milli Imdadi Society	Qaiser Gunj, Dist. Behraich.	UP
100.	Muslim Imdadi Society	Ahmed Toal, Kannkuj.	UP
101.	Muslim Fund	Basti Kiratpur.	UP
102.	Muslim Fund	Sarandah, posr Pench panda, Dist. Hoogli.	West Bengal
103.	Quami Amanath Society	20/1, Farha Lane, Calcutta.	West Bengal
104.	Islamic Finance	p.o.Azheekode, Dist. Trichur.	Kerala

	Azheekode		
105.	Islamic Service Fund	Muttafiqui Halqa, Kinalur, P.O.Kozhikode.	Kerala
106.	Islamic Service Charitable Trust	Vatamapalli, Farooqnagar, P.O. Vadanapalli, Dist. Trichur.	Kerala
107.	Interest-free Trust	Islamic Center, Ponari – 679577.	Kerala
108.	Islamic Bank Faisal	Islamic Service Bereau, Karmavampay, P.O.Kozhikode.	Kerala
109.	Kodhni Islamia Akharana Sangam	P.O. Kodhni, Dist. Malappuram.	Kerala
110.	Koohangodi Muslim Welfare Society	Jamat-e-Islami Office, Koohangodi p.o. Dist. Malappuram.	Kerala
111.	Palisha Rahitha Nidhi	Jamat-e-Islami Aina, Telichery Branch Main Road, Tellichery.	Kerala
1	**2**	**3**	**4**
112.	Palisha Rahitha Nidhi	Jamat-e-Islami Hind Chokil Unit, Dist. Cannannore.	Kerala
113.	Palisha Rahitha Nidhi	Jamat-e-Islami Muttafiq Halqa, Mekkaraparamba Dist. Malappuram.	Kerala
114.	Palisha Rahitha Nidhi	Nanmanda, Dist. Calicut.	Kerala
115.	Palisha Rahitha Nidhi	Jamat-e-Islami Nilambar Unit, Alathur Halqa, P.O.Niambur, Palghat.	Kerala
116.	Palisha Rahitha Nidhi	Jamat-e-Islami hind Muttafiq Halqa, Day Bazaar, Entyad, Dist. Trichur.	Kerala
117.	Palisha Rahitha Nidhi	Jamat-e-Islami Alathur Halqa, Palghat.	Kerala
118.	Palisha Rahitha Nidhi	Jamat-e-Islami Kanjeerapalli Dist. Kottayam.	Kerala
119.	Palisha Rahitha Nidhi	Jamat-e-Islami, Muttafiq Halqa, Punnayarkalam Dist. Trichur.	Kerala
120.	Palisha Rahitha Nidhi	Islamic Cultural movement, Cannannore.	Kerala
121.	Palisha Rahitha Nidhi	Jamat-e-Islami Muttafiq Halqa, uduma, Cannannore.	Kerala
122.	Palisha Rahitha Nidhi	Najathul Islam Trust, Idakanakkad, Ernakulam.	Kerala
123.	Palisha Rahitha Nidhi	Vellyakode, P.O. Malappuram.	Kerala
124.	Kidiyathur Area Islamika Sahaya Nidhi	Jamat-e-Islami Muttafiq Halqa, p.o.Kodiyathur, via Mokkam, Kozhikode	Kerala
125.	Palisha Rahitha Nidhi	Jamat-e-Islami Hind, Tirur Branch, Tirur	Kerala
126.	Palisha Rahitha Nidhi Tarbiyyathi Muslimeen	Badruddinpalli, Punnayurkulam.	Kerala
127.	Islamic Service Society	Palisha Rahitha Nidhi, P.O.Ponnari, Dist. Malappuram.	Kerala
128.	Palisha Rahitha Nidhi	Kannkkya, via Cherukara, Malappuram.	Kerala
129.	Palisha Rahitha Sahaya Nidhi	Jamat-e-Islami Hind, p.o.Kawavapoid, Koduvalli.	Kerala
130.	Bait-un-Nas'r Charitable Trust	Santhinagar, Tennal, Telchery	Kerala
131.	Palisha Rahitha Sahaya	Nidhi, Koduvalli, Kozhiode.	Kerala
132.	Alattil Palisha Rahitha Sahaya Nidhi	Elattil P.O. Koduvali, kozhikode.	Kerala
133.	Kodiyathur Area Islamika	Cheruvadi P.O. Mavoor, Dist. Kozhikode	Kerala

	Sahaya Nidhi		
134.	Welfare Society	Nanmanda, Kakoor, p.o. Kozhikode.	Kerala
135.	Irshad Islamic Finance.	Corporation, melatoor P.O. Malappuram	Kerala
136.	Kodoor Muslim Samskarika Samiti	p.o. Kodoor, Vadakka Manna, Dist. Malappuram.	Kerala
137.	Palisha Rahitha Nidhi	Kondotti, c/o, Masjidul Ehsaan, Kondotti	Kerala
1	**2**	**3**	**4**
138.	Welfare Society	Saalamathnagar, Puthur Pallikal.	Kerala
139.	Koorigadu Welfare Society	Koorigadu, Indianoor P.O.Kottakkal via, Dist. Malappuram.	Kerala
140.	Isa-Athul Islam Charitable Society	Alathoor – 678541.	Kerala
141.	Ideal Welfare Society	Atathala p.o., Aluva – 683564.	Kerala
142.	Welfare Society	Kodikini, Dist. Malappuram.	Kerala
143.	Palisha Rahitha Nidhi	Islamic Welfare Society, Ponani.	Kerala
144.	Palisha Rahitha Nidhi	Masjidun-Noor, Zdappal, Malappuram.	Kerala

ANNEX 1.3

Geographical Distribution of Islamic Co-operative Credit Societies 1998.

Sl. No.	Institution	Address	State
1.	Interest-free Credit Society	11-3-460, Malrpalli, Cross Road, Hyderabad – 500001	Andhra Pradesh
2.	Al-Ansar Co-operative Credit Society	1-4-833, Murshidabad Society, Hyderabad - 500020	Andhra Pradesh
3.	Patni Co-op. Credit Society	15/529, Rani Talab, Surat - 395001	Gujarat
4.	Mahilaya Antyodaya Kendra	Sharam, Sudhana Raopur, Vadodara.	Gujarat
5.	Al-Ameen Co-op. Credit Society	Near City Market, Bangalore.	Karnataka
6.	Al-Ameen Miamar co-op. Society Ltd.	Opp. Hotel Harsha, Shivajinagar, Bangalore.	Karnataka
7.	Barkat Co-op. Credit Society	Brood Galli, Belgaum.	Karnataka
8.	Nehru College Staff Co-op. Credit Society	Nehru College, Belgaum.	Karnataka
9.	AICMEU's Bait-ul-maal Co-op. Society	Vazir Building, IR Road, Mumbai.	Maharashtra
10.	Associated Industrial Urban Co-op. Credit Society	107, Muncipal Industrial Estate, Dr.E.Moses Rd. Worli, Mumbai.	Maharashtra
11.	Bait-un-Nas'r Co-op. Credit Society	2, Kanchwala Building, B20, VS Marg, Mahim, Mumbai.	Maharashtra
12.	Shaheen Co-op. Credit Society	Jai Hind Boiler Repairs, Akola.	Maharashtra
13.	Al-Faiz Bila Soodi Finance Co-op. Society	Mohalla Nazastimittika Shaher, Dist. Harthi.	Maharashtra
14.	Friends Co-op. Credit Society	118-39, Mazdoorpur, Aurangabad.	Maharashtra

ANNEX 1.4

Geographical Distribution of Islamic Investment and Financial Companies 1998.

Sl. No.	Institution	Address	State
1	2	3	4
1.	Markaz Investment Co.	12, MEM Complex, Putli Bowli, Hyderabad. – 500195.	Andhra Pradesh
2.	Masood Finance and Investment Co.	62-9691 Khairatabad, Hyderabad.	Andhra Pradesh
3.	Markaz Investment Co.	11-5414/1, Red hills Hyderabad- 500004.	Andhra Pradesh
4.	Al-Falah Investments	Banjara Hills, Hyderabad.	Andhra Pradesh
5.	Al-Ameen Islamic Financial & Investment Corporation	109, NR Road, Bangalore – 560002.	Karnataka
6.	Ashra Leasing Investment & Finance Co.	25/5A, Bowting Hospital Road, Bangalore.	Karnataka
7.	Tijarath Investments & Co.	25/5-A, Bowring Hosptal Road, Bangalore.	Karnataka
8.	Al-Islah Investments Pvt. Ltd.	Jamia Complex, NR Road, Bangalore	Karnataka
9.	Al-Taqwa Finance Pvt. Ltd.	NH-17, Above Hotel Top Form, Bhatkal.	Karnataka
10.	Amanath Agriculture & Investments Ltd.	Vazir Building, Ibrahim Rehmatulla Road, Mumbai.	Maharashtra
11.	Rehbar Islamic Finance & Investment Co.	4th Peerkhan Street, Dawood Bohra Trust Building, Mumbai.	Maharashtra
12.	Falah Investments Ltd.	Sayeed House VS Road, Mahim, Mumbai.	Maharashtra
13.	Ittefaq Investments Ltd.	Sayeed House VS Road, Mahim, Mumbai.	Maharashtra
14.	Barkat Investment Corporation.	Sayeed House VS Road, Mahim, Mumbai.	Maharashtra
15.	Barkat Leasing and Financial Services Ltd.	Sayeed House VS Road, Mahim, Mumbai.	Maharashtra
16.	Muhafiz Credit And Investments Pvt. Ltd.	Sayeed House VS Road, Mahim, Mumbai.	Maharashtra
17.	Barkat Finance and Investments Co.	Sayeed House VS Road, Mahim, Mumbai.	Maharashtra
18.	Barkat Savings Ltd.	Sayeed House VS Road, Mahim, Mumbai.	Maharashtra
1	2	3	4
19.	Barkat Securities and Finance Ltd.	Sayeed House VS Road, Mahim, Mumbai.	Maharashtra
20.	Barkat Stocks and Finance Ltd.	Sayeed House VS Road, Mahim, Mumbai.	Maharashtra
21.	Al-Barr / Al-Baraka Finance House Ltd.	India House No.2, Kemp Corner, Mumbai	Maharashtra

22.	Sayed Shariat Finance Ltd.	4G, Salai Street, Sindu Poondarai, Tirunelveli.	Tamilnadu
23.	Shabab Islamic Investment Co.	Lukhnow.	UP
24.	Aalah Investment Co.	Lukhnow	UP
25.	Al-Najib Milli Mutual Benefits Ltd.	Mohalla Rampur, Najibabad.	UP
26.	Al-Ameen Investments	Chandni Chowk, Old Delhi.	Delhi
27.	Al-Falah Group Ltd.	Al-Falah House, 274-A, Jamianagar, New Delhi – 110025	Delhi
28.	Al-Falah Investments Ltd.	Al-Falah House, 274-A, Jamianagar, New Delhi – 110025	Delhi
29.	Al-Falah Developers Ltd.	Al-Falah House, 274-A, Jamianagar, New Delhi – 110025	Delhi
30.	Al-Falah Blossoms Ltd.	Al-Falah House, 274-A, Jamianagar, New Delhi – 110025	Delhi
31.	Al-Falah Exports Ltd.	Al-Falah House, 274-A, Jamianagar, New Delhi – 110025	Delhi
32.	Al-Falah Consultancy Services Ltd.	Al-Falah House, 274-A, Jamianagar, New Delhi – 110025	Delhi
33.	Al-Falah Charitable Trust	Al-Falah House, 274-A, Jamianagar, New Delhi – 110025	Delhi
34.	Fateh Leasing and Finance Pvt. Ltd.	Chandni Chowk, Old Delhi	Delhi
35.	Al-Fahad Fincon Ltd.	161, Jogabai, Jamianagar, Okhala, New Delhi.	Delhi
36.	Al-Fahad Investments Ltd.	161, Jogabai, Jamianagar, Okhala, New Delhi.	Delhi
37.	Al-Fahad Omega Egg Products Ltd.	161, Jogabai, Jamianagar, Okhala, New Delhi.	Delhi
38.	Al-Fahad Cold Storage Ltd.	161, Jogabai, Jamianagar, Okhala, New Delhi.	Delhi
39.	Al-Fahad Pharmateucals Ltd.	161, Jogabai, Jamianagar, Okhala, New Delhi.	Delhi
40.	Al-Fahad Developers	161, Jogabai, Jamianagar, Okhala, New Delhi.	Delhi
41.	Al-Fahad International Travels Ltd.	161, Jogabai, Jamianagar, Okhala, New Delhi.	Delhi
1	**2**	**3**	**4**
42.	Al-Fahad Charitable Trust	161, Jogabai, Jamianagar, Okhala, New Delhi.	Delhi
43.	Al-Fahad Exports Ltd.	161, Jogabai, Jamianagar, Okhala, Delhi	Delhi
44.	Al-Fahad Milk and Dairy Products Ltd.	161, Jogabai, Jamianagar, Okhala, New Delhi.	Delhi

45.	Al-Fahad Blossoms Ltd.	161, Jogabai, Jamianagar, Okhala, New Delhi.	Delhi
46.	Al-Fahad Consultancy Services Ltd.	161, Jogabai, Jamianagar, Okhala, New Delhi.	Delhi
47.	Bait-ul-Islam Finance and Investments (P) Ltd.	9/718, Cherooty Colony, Calicut.	Kerala
48.	Assalam Finance and Investments Pvt. Ltd.	p.o.Box No. 572, Indus Avenue, Kallai Road, Calicut.	Kerala
49.	Alternative Finance and Investment Ltd.	Rubian Complex, Cochin	Kerala

ANNEX 3.1

Branches of Muslim Fund Najibabad.

Sl. No.	Branches	Address	State
1.	Head Office	Rampura, Najibabad.	UP
2.	Main Branch	Rampura, Najibabad.	UP
3.	Kotdwara	J.B.Marg, Kotdwara.	UP
4.	Sahanpur	Jhanda Chowk, Sahanpur, Dist. Bijnoor	UP
5.	Mumbai	2/3, Anees Chamber, Carnac Road, Mumbai	Maharashtra
6.	Nawab Rd. Delhi	5998, Basti Herphool Singh, Delhi	Delhi
7.	Barahpur	Main Market, Barahpur, Dist. Bijnoor.	UP
8.	J.F. Delhi	15/240, Jafferabad, Delhi.	Delhi
9.	Jalalabad	Qazian Street, Jalalabad, Dist. Bijnoor	UP
10.	Pathanpura	Pathanpura, (Najibabad).	UP
11.	Jama Masjid Delhi	2616, Churiwalan Matia Mahal, Delhi	Delhi
12.	Kotwali	Main Market, Kotwali, Dist. Bijnoor.	UP
13.	Bhanera	Main Market, Bhanera, Dist. Bijnoor.	UP
14.	Nangal	Soti Ka Nangal. Dist. Bijnoor	UP
15.	Ghaziabad	Bhatta Abu Khan, Ghaziabad.	UP
16.	Bachraon	Moh Paish (Moradabad) Thane.	Maharashtra
17.	Raipur Sadat	Near Masjid Qureshyan, Raipur Sadat. Dist. Bijnoor	UP
18.	Bhagoowala	Near Jama Masjid, Bhagoowala. Dist. Bijnoor	UP
19.	Seohara	Sardar Bazar, Seohara, Dist. Bijnoor.	UP
20.	Khalaya, Delhi	B665, DDA Colony New Delhi.	Delhi
21.	Chand Bagh Delhi	A-39, Chand Bagh Delhi.	Delhi
22.	Khureji, Delhi	33/6, Khureji, Delhi.	Delhi
23.	Okhla, Delhi	Murari Road, Batla House, New Delhi	Delhi
24.	Subnigran, Najibabad	Near CPM Office, Majeed Gunj. Dist. Najibabad	UP
25.	Moradabad	Mansoori Mkt., Maqbara Road Moradabad.	Maharashtra
26.	Kashipur	Moh Aali Khan, Kashipur	UP
27.	Lakri Paraw	Lakri Paraw, Kotdwara.	UP
28.	Behat	Gandhi chowk, Behat.	UP
29.	Chhutmalpur	Chhutmalpur.	UP

ANNEX 4.1

BAIT-UN-NAS'R URBAN CO-OPERATIVE CREDIT SOCIETY, LTD. MUMBAI

Branches

Sl. No.	Branches	Address	State
1.	Head Office	Farida Apartment, Shop no.3, L.J.Cross Road, No.2, Mahim, Mumbai-400 016.	Maharashtra
2.	Mahim	Farida Apts, Shop No.2, L.J.Cross Road, No.2, Mahim, Mumbai-400 016.	Maharashtra
3.	Dharavi	5, Nagree Apts. Gr. Floor, Near Dharavi Masjid, Dharavi Main Road, Dharavi, Mumbai.-400 017	Maharashtra
4.	Bandra West	Zarina Co-Op. Hsg. Society Ltd. Bazaar Road, Bandra Mumbai-400 050.	Maharashtra
5.	Bandra Division/ Branch	4, Navpada, Bandra (East), Mumbai-400 051	Maharashtra
6.	Bharatnagar	Dar-ul-Nas'r 53/823, Bharatnagar Bandra(E) Mumbai-400 051.	Maharashtra
7.	Behrampada	15/A, Above Janatha Team House, Razzaq Chawl, Behram Nagar, Bandra(East) Mumbai-51	Maharashtra
8.	Memonwada	68/A, Nas'r House, Memonwada Road, Near Chuna Bhatti Masjid, Mumbai-400 003.	Maharashtra
9.	Two Tank	Sajjad Mansion, 1st Floor, 66, Chimna Butcher Street, Mumbai-400 003.	Maharashtra
10.	Madanpura	Madina Manzil Gr. Floor, Moulana Azad Road, Madanpura, Mumbai-400 008.	Maharashtra
11.	Morland Road	Qayyum Manzil, 7, Near Rehmani Masjid, Omer Rajjab Road, Madanpura, Mumbai-400 008.	Maharashtra
12.	Kurla / Division	Visheswar Bhavan, 1st Floor, Room No.10, Kurla Pipe Road, Kurla (W), Mumbai-400 070.	Maharashtra
13.	Qureshnagar	Shop No.3, Nazeer Abdul Shakoor's Chawl No.54-B-A, Qureshnagar, Kurla (E), Mumbai-70	Maharashtra
14.	Cheeta Camp	Nas'r Cottage, C Sector, D-1 Line 21, Cheeta Camp, Trombay, Mumbai-400 088.	Maharashtra
15.	Govandi	Plot No.1, R No.7, G Lane, Shivjinagar, Govandi, Mumbai-400 043.	Maharashtra
16.	Jogeshwari (W)	Mohammed Manzil, 3, Gr Floor, Behram Baug, Jogeshwari (W) Mumbai-400 102.	Maharashtra
17.	Jogeshwari (E)	Nas'r Spot, KEM-1006, Janatha Quarters, Colaba Plot, Jogeshwari (E) Mumbai-400 060.	Maharashtra
18.	Malwani	Nas'r Link, 6, Room No.210, Gate No.5, Old Collector Compound, Malad (W) Mumbai-95.	Maharashtra
19.	Vikhroli	15, Madina Masjid Complex, Park site Colony, Vikhroli(W) Mumbai-400 079.	Maharashtra
20.	Andheri Division	Flat no.A-3, Kherani Mansion, Gold Star Housing Society, Andheri (West), Mumbai-58	Maharashtra

Anexx. 5.1

Barkat Leasing And Financial Services Ltd. Mumbai.

BRANCHES

Sl. No.	Branches	Address	State
1.	Registered Head Office	Barkat Cottage, VinayakWadi, Gr. Floor, Near Mahim Dargah, Mahim, Mumbai.	Maharashtra
2.	Marketing Office	56, SVS Road, Opp. Altaf Furnitures, Mahim Mumbai.	Maharashtra
3.	Bhiwandi	164, Qaisar Baugh, Next to shalimar Press, Thane Road, Bhiwandi. Dist. Thane	Maharashtra
4.	Mumbra	A,101, Shabnam Apts., Dadi Colony, Old Mumbai Pune Road, Kausa, Mumbra.	Maharashtra
5.	Chiplum Regional Office	222, Parkar Complex, 2nd Floor, Chiplum.	Maharashtra
6.	Chiplum Branch	215, Parkar Complex, 2nd Floor, Chiplum.	Maharashtra
7.	Ratnagiri	Biradar Complex, 1st Floor, Jama masjid Road, Ratnagiri.	Maharashtra
8.	Khed	Farheen Apts. Gr. Floor, Opp. Dr.Khalid (Paliker) Hospital, Khed. Dist. Ratnagiri.	Maharashtra
9.	Shrivardhan	Gafooriya business complex, 1st Floor, Opp. Fish Market, Shrivardhan, Dist. Raigad.	Maharashtra
10.	Aurangabad	Heena Complex, 1st Floor, Opp. Dena Bank, Juna Bazaar, Aurangabad.	Maharashtra
11.	Delhi	3830, 1st Floor, Lalkhoti, Pataudi House Road, Darya Gunj, New Delhi.	Delhi
12.	Bangalore	Darus Salaam, Queens Road, Bangalore.	Karnataka
13.	Calicut	Indus Avenue, 3rd Floor, Kallai Road, Calicut.	Kerala
14.	Hyderabad	Darvesh Building, 2nd Floor, Moazzam Jahi Market, Hyderabad	AP
15.	Surat	12/333, Amin Manzil, Dungerkura Sheri, Limda Chowk, Rani Talao, Surat.	Gujrat
16.	Bharuch	Star Shopping Center, 1st Floor, Juni Jin, Aali Dhal, Char Rasta, Bharich.	Gujrat

Annex . 5.2

Al-Barr / Al-Baraka Finance House Ltd.

BRANCHES

Sl. No.	Branches	Address	State
1	Head office	India House No.2, Kemp's Corner, Mumbai-400036.	Maharashtra
2	Andheri	Shop No. 32, Shourie Complex, Mumbai 58. Andheri (w).	Maharashtra
3	Chennai	24, Wellington Estate, Commander-in-chief Rd. Chennai.	Tamil Nadu
4	Kanpur	1A and 2A, Khan Market, 97 / 122, Talaq Mahal, Kanpur.	U.P.
5	Lucknow	Dr. Tandon Bldg. Qaiser baugh circus, Lucknow.	U.P.
6	Surat	10 /2431-32, Memon corner, Chowk Bazaar, Surat.	Gujarat
7	Aligarh	8 & 9, Barula Market. Dodhpur, Aligarh.	U.P.
8	Kurla	No. 2, Hanief Bldg. No.A-128, Piper Rd., Kurla(w).Mumbai.	Maharashtra
9	New Delhi	T-6, Green park main, New Delhi.	Delhi

Annex . 5.3

Al-Ameen Islamic Financial & Investment Corporation Ltd. Bangalore.

BRANCHES

Sl. No.	Branches	Address	State
1.	Head Office	Al-Ameen Towers, 3rd Floor, Hosur Road, Near Lalbagh Main Gate, Bangalore.	Karnataka
2.	Aurangabad	Patel Arcade, Juna Bazaar, Aurangabad	Maharashtra
3.	Calicut	Cresent Building, 3rd Floor, Cheruthy Road, Calicut.	Kerala
4.	Chennai	Kassims Plaza, 1st Floor, 307, Triplicane High Road, Chennai.	Tamilnadu
5.	Gulbarga	63, Super market, Gulbarga.	Karnataka
6.	Hyderabad	5-9-189, Linean Estate, Beside SBH Head Office, Gunfoundry, Abid Rd, Hyderabad	AP
7.	Mangalore	No.18/2/100/4, 1st Floor, Supriya Building, Falnir Road, Mangalore.	Karnataka
8.	Manjeri	Athimannil Commercial Complex, No.XX/187-Z, (II) Court Road, Manjeri.	Kerala
9.	Mumbai	Opp. Karnataka Baitul Hujjaj, 58/60, Nishanada Road, Dongri, Mumbai.	Maharashtra
10.	Mumbra	40, Rizvi Baug, Opp. Mumbra Railway Station Mumbra.	Maharashtra
11.	Mysore	112, Deveraj Urs Road, Mysore.	Karnataka
12.	Nagpur	97A, Central Avenue, Fountain Square, Gandhibagh, Nagpur.	Maharashtra
13.	Pune	348, Ghorpadepeth, Opp. Mecca Masjid, Mominpura, Pune	Maharashtra
14.	Vellore	17/18, RNR Arcade, Katpadi Road, Vellore.	Tamilnadu

Annex . 5.4

Seyad Shariat Finance Ltd. Tirunelveli.

BRANCHES

Sl. No.	Branches	Address	State
1.	Head Office	Seyad Buildings, 4-G, Salai Street, Sindupoondurai, Tirunelveli-627 001.	Tamilnadu
2.	Administrative Office	28, Middle Street, Sindupoondurai, Tirunelveli-627001.	Tamilnadu
3.	Kadayannalur	246, Main Road, Kadayanallur-627751.	Tamilnadu
4.	Coimbatore	88-96, Subramaniam Road, RS Puram, Coimbatore-641002.	Tamilnadu
5.	Chennai	183, Bells Road, Chepauk, Chennai-600 005.	Tamilnadu
6.	Kayalpatnam	3C, Big Weavers Street, Kayalpatnam-628 204.	Tamilnadu
7.	Theni	3, Power House Road, Theni-626531.	Tamilnadu
8.	Nagercoil	19D, Nagarajacoil Street, Near Head Post Office, Nagercoil-629 001.	Tamilnadu
9.	Melapalayam	5, Methamarpalayam, 4th Street, Melapalayam-627 005	Tamilnadu
10.	Ramanathpuram	Valampuri Mahal, 66, Railway Feeder Road, Ramanathapuram-623504.	Tamilnadu

Annex . 5.5

Al-Najib Milli Mutual Benefits Ltd. Najibabad.

BRANCHES

Sl. No.	Branches	Address	State
1	2	3	4
1.	Head Office	Rampura, Najibabad.	UP
2.	Zonal Office	No.4, Sayeed House, 1st Floor, 63/65, SVS Road Mahim, Mumbai-400 016.	UP
3.	Kotdwara	J.B.Marg, Kotdwara, Dist Garhwal-246149.	UP
4.	Saharanpur	Jhanda Chowk, Saharanpur, Dist. Bijnoor-246749.	UP
5.	Mumbai	2/3, Anees Chamber, Carnac Road, Mumbai-01	Maharashtra
6.	Nawab Rd. Delhi	5998, Basti Herphool Singh, Delhi-110 006.	Delhi
7.	Barahapur	Main Market, Barahapur, Dist. Bijnoor-246724.	UP
8.	Jafferabad. Delhi	15/240, Jafferabad, Delhi-110 053.	Delhi
9.	Jalalabad	Qazian Street, Jalalabad, Dist. Bijnoor-246763.	UP
10.	Pathanpura	Mohalla Pathanpura, (Najibabad).Dist. Bijnoor.246763.	UP
11.	Jama Masjid	118, Katra Gokul Shah, Jama Masjid, Delhi-06	Delhi
12.	Kotwali	Main Market, Kotwali, Dist. Bijnoor-246764.	UP
13.	Bhanera	Main Market, Bhanera, Dist. Bijnoor-246731.	UP
14.	Nangal	Soti Ka Nangal. Dist. Bijnoor-2346732	UP
15.	Ghaziabad	Bhatta Abu Khan, Ghaziabad-201001.	UP
16.	Bachhraon	Mohalla Piash, Bachhraon, Dist. JotibaPhulenagar-244225.	Maharashtra
17.	Raipur Sadat	Near Bus Stand, Raipur Sadat. Bijnoor-246762	UP
18.	Bhagoowala	Near Jama Masjid, Bhagoowala. Bijnoor-246749	UP
19.	Seohara	Near Kale Khan Petrol Pump, Seohara, Dist. Bijnoor-246746.	UP
20.	Khayala, Delhi	B665, DDA Colony, Khayala, New Delhi-18.	Delhi
21.	Chand Bagh Delhi	A-39, Chand Bagh Delhi-110094.	Delhi
22.	Khureji, Delhi	33/6, Old Bridgepuri, Khureji, Delhi-110 051.	Delhi
23.	Okhla, Delhi	A-48/6, Galli No.5, Batla House, New Delhi-25.	Delhi
24.	Subnigran,	Mahalla Subnigran, Near CPM Office, Najibabad, Dist. Bijnoor-246763.	UP
25.	Akbarabad	Jama Masjid, Akbarabad. Dist. Bijnoor-246738.	UP
26.	Moradabad	Mansoori Mkt., Maqbara Road, Moradabad-1.	Maharashtra
27.	Kashipur	Sabit Thana, Kashipur, Dist. Udam SinghNagar.	UP
1	2	3	4
28.	Lakri Paraw	Lakri Paraw, Kotdwara, Dist. Garhwal-246149.	UP
29.	Behat	Mohalla Maniharan, Town Hall Galli, Behat. Dist. Saharanpur-247121.	UP
30.	Chhutmalpur	Near Masdrasa Kashif-ul-Uloom, Chhutmalpur. Dist. Saharanpur.	UP

31.	Lukhnow	Milli Lodge, 165 Ganga Prashad Road, Molvi Gunj, Lukhnow.	UP
32.	Bangalore	Darul Salaam, Queens Road, Bangalore	Karnataka
33.	Hyderabad	Durvesh Building, Muazzam Jahi Mkt. Hyderabad-1.	AP
34.	Mumbra	Shabnam Apts., Flat 101, Dadi Colony, Mumbra	Maharashtra
35.	Shrivardhan	Survey No.75, Part 7, House No.2073, Raigadh, Shrivardhan-402110.	Maharashtra
36.	Surat	12/333, Ameen Manzil, Dongar Kuan, Surat.	Gujrat
37.	Ratnagiri	Brother Complex, 1st Floor, Jama Masjid Road Ratnagiri-415612.	Maharashtra
38.	Aligarh	Kauser Complex, 1st Floor, 17/19, Ameer Nishan, Aligarh-202002.	UP
39.	Bharuch	Star Shopping Center, 1st Floor, Juni Jin, Aali Dhal Char Rasta, Bharuch.	Gujarat
40.	Aurangabad	Hina Complex, Juna Bazaar Aurangabad-431001	Maharashtra
41.	Saharanpur	Shah Vilayat, Nakhasa Bazaar, Saharanpur-1.	UP
42.	Mandwali	Haridwar Road, Mandwali-246749.	UP
43.	Sadar	Mahalla Rampura, Najibabad, Dist. Bijnoor-246763.	UP

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