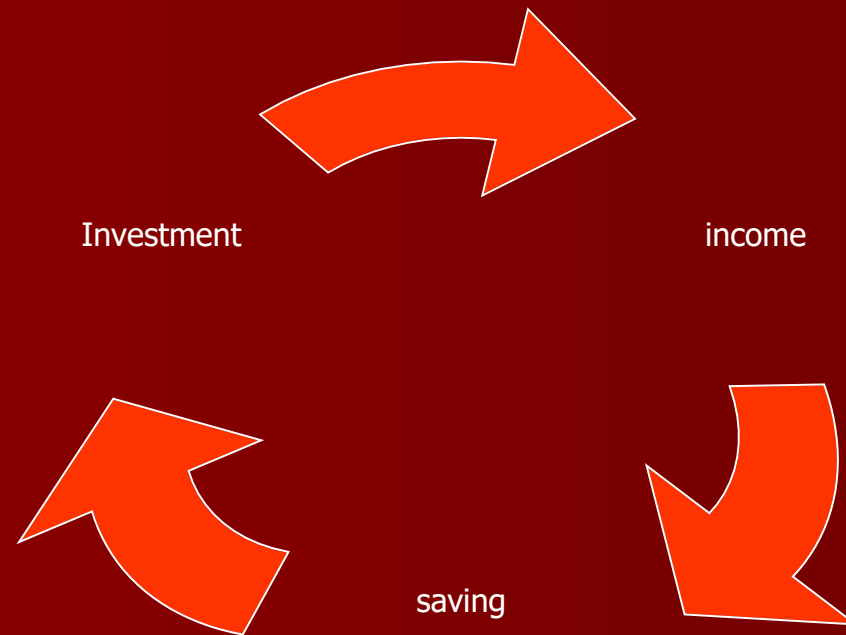


Islamic Finance and NGOs in India



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Coordination Meeting of NGOs in India

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This Presentation

- Shall tell you what is the relevance of Islamic Finance in Muslim Minority Countries.
- What is the present situation of Islamic Finance
- Conduct a SWOT analysis
- Suggest remedial measures.

Are the IFIs NGOs?

- A non governmental organization (NGO) is *a legally constituted organization* created by private persons or organizations with no participation or representation of any government. In the cases, in which NGOs are funded totally or partially by governments, NGOs maintain their non governmental status so far it excludes government representatives.

<http://Wikipedia.org/wiki/NGO>

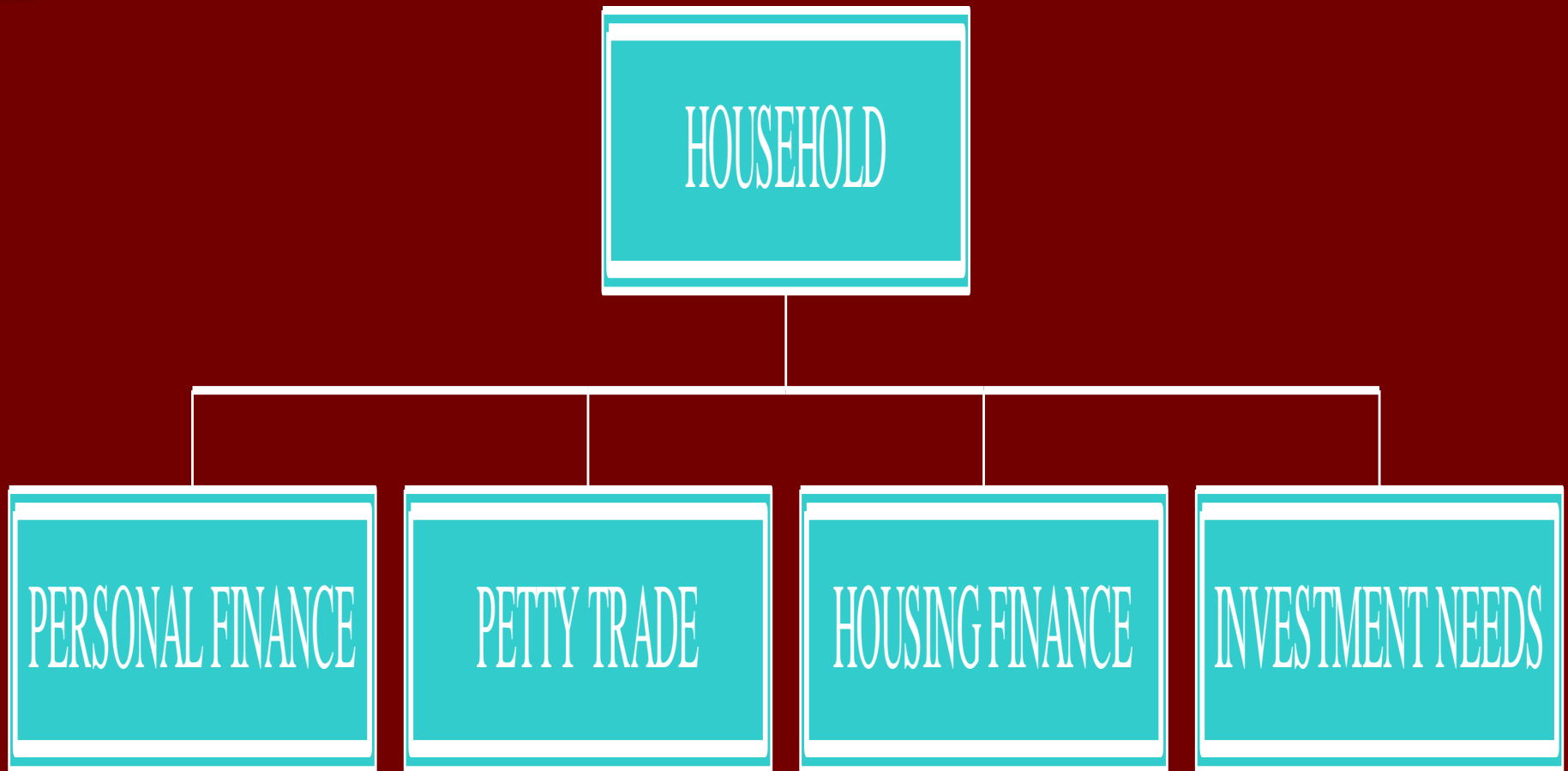
TYPES OF NGOs

- INGO [International NGO]
- BINGO [Business oriented NGO]
- EINGO [Environment]
- GONGO [Government Operated]
- QUANGO [Quasi autonomous]
- TANGO [Technical Assistance]
- CSO [Citizens Sector Organization]

PRESENT SCENE OF IFIs

- Islamic Banks in the Government Sector
 - Pakistan, Sudan, Iran
- Islamic Banks in the Mixed Sector
 - Malaysia, Egypt
- Islamic Banks in the Private Sector
 - Gulf
- Non Banking Financial Institutions
 - India
- Islamic Financing by standard Commercial Banks

FINANCIAL NEEDS OF HOUSEHOLD



ISLAMIC BANKING IN THE CORPORATE SECTOR

- **Much of the Development of Islamic Banking that has taken place in the eighties and nineties in the Gulf and elsewhere has been in the organized Corporate Sector**

LIMITATIONS OF THE CORPORATE SECTOR

REQUIRES:

1. Large Capital
2. Large size of Market
3. Favorable Political Climate
4. Institutional and Legal Framework

Negative Mental block against Islamic banking is a big barrier against it in the Muslim Minority countries.

OBSTACLES IN THE ESTABLISHMENT OF IFIs

- 1. Lack of Political Support
- 2. Lack of Expertise and Know-how
- 3. Lack of Organizational Finance
- 4. Lack of Favorable Political Climate

INTEREST FREE FINANCIAL INSTITUTIONS IN INDIA

- More than 200 institutions, mostly loan societies and investment companies.
- Operating in the unorganized sector
- Misnomer to describe them as Islamic Banks
- Societies registered under Societies Act. Many remain unregistered.
- Different sources of funds
- Lack control and regulation due to absence of legal framework.
- Non Banking Financial Companies and Islamic Investment Companies.

NEEDS FOR MICRO FINANCE IN INDIA

- With 63000 branches of commercial banks, 14000 branches of regional rural banks and 100,000 branches of cooperative banks, banking is out of reach for millions.
- 75 million household depend on money lenders.
- 90 percent in Rural India have no access to institutional credit.
- Micro credit can change lives.

Interest Free Societies in India

1. Interest Free Credit Associations
2. Interest Free Financial Companies
3. Investment Funds

Interest Free Credit Associations

- Mostly established in late 70 and 80s.
Coincides with employment upsurge in the Gulf
- Concentrated in South India: Karnataka, kerala, AP and Chinnai.
- Motivation: Avoid Riba
- Registration: Charitable Societies or unregistered.

Interest Free Credit Associations II

- Sources of Funds: Different for Charitable Societies, Cooperative Societies,
- Size of Capital involved: Difficult to tell
- Business Practices:
 - Deposit taking
 - Providing Loans
 - Leasing?

SWOT ANALYSIS OF IFCA_s

Strength:

**Grass Root organizations
Micro Financing**

Weakness:

**Unorganized Sector
Lack of professionalism
Lack of regulation (security)**

Opportunity:

Mobilization of hidden resources

Threat:

Disintegration

Islamic Financial Companies

- Al Ameen (Bangalore)
- Al Falah (Delhi)
- Al Mizan (Chinnai)
- Al Najeeb, (Bijnor, U.P.), Muslim Fund
- Al Idafa (Mumbai)
- First three have been closed by the RBI for non compliance.

SPIRIT OF COOPERATION

- Democratic Participation
- One person One vote
- Open membership
- Cooperative Education
- Cooperate with other organizations.

REMEDIES

- Require Legal Framework
- Professionalism
- Transparency
- Productivity and Efficiency.
- Needs to be organized