

Journal of Islamic Banking and Finance

Global Perspective on Islamic Finance

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Sura Ale-Imran (verse No. 130)

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Islamic Microfinance in India: A Quantitative Approach

By
Huma Mahmood^{*}, Rusni Hassan^{**}
Syed Ahmed Salman^{***}

Abstract

Islamic microfinance institutions (IMFIs) have had their roots in India originating as far back as 1918. It is founded on the principle which prohibits interest and hence is a form of non-interest microfinance to the poor. It also provides micro-credit services through Shari'ah compliant structures to small dealers and traders who have limited to no access to the formal financial services. Islamic microfinance offers a more sustainable and successful microfinance which not only creates financing but also blends in empathy for the poorest of the poor. In the Islamic perspective, poverty alleviation is more comprehensive than the conventional one. It flags equity and cooperation-based models in contrast to models that create and perpetuate debt. However, the past of IMFIs in India depicts an unfortunate tale. The IMFIs established during the eighties, rose and matured quickly. Nevertheless, over the course of time they encountered numerous hurdles that lead to their closure in many places. Therefore, it becomes vital to study the factors that caused the IMFIs downfall in India. The objective of this research is to know the challenges of Islamic microfinance in India and give suggestions and possible solutions to resolving the issues. This study adopts the quantitative approach. In this research the population is known and hence probability sampling or random sampling is selected. The data gathered from the 303 responses received is analyzed using SPSS22 software. The findings of this research show that the majority agrees that there is lack of government support, no proper marketing of Islamic microfinance products, no effective Islamic

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microfinance products in India, lack of human capital in microfinance, high interest rates that make the poor financially unstable and lack of microfinance institutes in rural areas. This study offers robust recommendations on the challenges of Islamic microfinance in India and henceforth, it will be of interest to regulators, stakeholders, as well as the existing and potential customers.

Keywords: Islamic Microfinance, Challenges, Suggestions and India

1.0 Introduction

Among the many factors that were responsible for the microfinance crisis in India, one major factor was the high interest rate which still continues to exist (Shafi, 2015; Halder & Stiglitz, 2014). The giants of microfinance in India until today are known to be charging high interest rates. This defies the sole purpose of microfinance to serve the poor and the poorest of the poor with income as low as 2 dollars per day as they are unable to pay the high interest rates. Moreover, on looking into the population of the financially excluded, the majority of them are Muslims who are of the belief that giving or taking of interest is not permissible (Pandey & Aziz, 2017).

To address the need of the financially excluded Muslims in India, the establishment of non-interest-based microfinance model proves to be extremely effective. It can provide for a more sustainable and successful microfinance which not only creates financing but also blends empathy for the poor and the poorest of the poor. Islamic microfinance institutions (IMFIs) are institutions that work solely on non-interest-based models. Their perspective of poverty alleviation is more inclusive and functions using equity and cooperation-based models such as a) partnership arrangements of profit and loss sharing (e.g. Musharakah and Mudharabah) and b) asset financing (e.g. Murabahah and ijarah) in contrast to models that create and perpetuate debt.

IMFIs in India have been existing since the 20th century (Nisar & Aziz, 2004; Chakrabarty, 2015), however, the history of IMFIs in India narrates a painful tale. The IMFIs initiated during the eighties, grew and matured rapidly but in due time they were met with hurdles leading to their closure in many places. Two most trusted companies in India, Barkat Investment Group and Baytu-n-Nasr faced a shut down and others existing started reporting negative growth (Nisar, 2002). Hence, it becomes crucial to study the issues and challenges of IMFIs in India. To the extent of the researchers' knowledge, study on challenges of Islamic microfinance in India is quite limited. Therefore, in order to fill this void, this research will examine and gauge the challenges of Islamic microfinance in India and subsequently, the study will also give suggestions and possible solutions to resolving the issues and building the awareness in India.

This paper is organized into five sections. Section two gives a brief picture of the literature review on Islamic microfinance, whereas section three explains the research methodology. Section four describes the challenges of Islamic microfinance in India. Lastly, section five concludes the paper.

2.0 Literature Review

Nisar (2002) in his article sought to analyze the current state of Islamic finance in India. He stated that the ‘non-performance’ of the first-generation reforms and the weak financial market being technically not sound became the basic reasons for many finance sector scams to take place. The article then focused on the regulation aspect of NBFCs pointing out that the regulation initiated by the Reserve Bank of India to effectively supervise, control and regulate was solely limited to deposit acceptance activities of NBFCs and hence rendered the regulatory framework inadequate to control other operations of NBFCs. The findings depicted that the changing government and elections caused the NBFCs to become unstable with their outflows becoming bigger than their inflows. Moreover, the number of scams led to loss of trust and confidence of the public in IMFIs and the lack of creating a proper mental attitude and educating the society to accept Islamic Banking and Finance in India.

Nisar & Aziz (2004) in their study examine the rise of Non-Banking Finance Companies (NBFCs) and their subsequent failures by conducting detailed case studies on prominent Islamic NBFCs of India; Barkat Investment Group (BIG), Baitun Nasr Urban Cooperative Credit Society (BUN), Al-Najib Milli Mutual Benefits Limited (AMMB) and Al-Barr Finance House Ltd. (ABFL). Their findings highlight the sudden introduction of large-scale regulatory changes in the non-banking financial sector coupled with worse economic conditions to be one of the main factors behind the closure of majority of the Islamic NBFCs in India. The other issues faced by the NBFCs in their operation was the limited investment opportunities, limitation of addressing liquidity needs following Shariah commitment

prohibiting conventional loans, non-availability of Shariah compliant options or lender of last resort in India and also rumors and contagion effect being the cause behind closure of some of the Islamic NBFCs.

Sherwani (2010) in his study to measure the problems and challenges for formulating interest free models in India conducted both statistical and qualitative research based on secondary data. The author in his findings stated that the major hurdle in the path of development of Islamic microfinance is lack of supply of fund. The other challenges highlighted in the study were legal barriers and mounting operating costs and grass root level awareness and lack of MFIs ability to fully monitor the clients in a mudaraba microfinancing hence becoming an easy target of clients to manipulate documents and under report the profits realized in order to reduce the share of MFI as per agreement.

Wasiullah, Backer, & Waheed (2015) sought to study the technical feasibility of one of the major Islamic Finance contract – Murabaha in the Indian context discussing issues and theories at the conceptual level in comparison to the existing modes of conventional finance. The findings show that lack of funds and restriction by the regulation on taking deposits hinders IMFIs from offering saving and equity-based products. Apart from that, equity financing and risk sharing products are ignored due to moral hazard and agency issues. Moreover, Islamic Institutes are required by the regulation to pay fixed percentage of interest to its depositors. The study also highlighted that IMFIs in India lack financial and human resources required to conduct R&D activities to make products offered Shariah compliant. Murabaha and other existing

fixed-return financing instruments like Ijarah, Salam and Istisna lack effective marketing to increase their outreach and acceptability. Also, Murabaha product/transaction in India is more expensive than the conventional mode due to the tax levied at the various stages of a Murabaha transaction making its application in India more strenuous.

Mohammed & Waheed (2016) analyze the feasibility of providing Islamic financial services in India, mainly in the areas of Retail Banking, Microfinance and Venture Capital financing by identifying the major regulatory challenges facing Islamic finance in India. The authors in order to conduct this study examine the regulations that are governing these sectors in India such as the 'Banking Regulation Act, 1949', 'Multistate Cooperative Societies Act 2002', 'Reserve Bank of India Act, 1934', 'Securities and Exchange Board of India (Venture Capital Funds) Regulations, 1996' and 'Securities and Exchange Board of India (Foreign Venture Capital Investor) Regulations, 2000'. For regulations related to Islamic finance, the authors considered the Shariah Standards published by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). The authors in their findings opined that in the case of NBFC-MFI model, few of the provisions of the RBI Act, 1934 and directions issued for NBFC-MFI do not support NBFCs to provide Islamic Microfinance services. There by highlighting the existing regulations to be an issue in the growth and development of Islamic Microfinance in India.

Al-Aboud & Faisal (2016), attempt to explore some major challenges, growth and status of microfinance in India and Saudi Arabia during the period of 2015-16. The paper also explored poverty assessment and social performance methods by using microfinancing tool and techniques in India and Saudi Arabia. Their findings show that both Saudi Arabia and India are facing lack of proper regulation, supervision and assistance from apex financial bodies. The major challenge highlighted in the study was inadequate capital support in order to finance low income group and individuals in India. Another obstacle in the growth of MFIs is the absence of proper guidelines in dealing with defaulters. The lack of proper audit methodology as per AICPA and GAAP guidelines for maintaining financial records on yearly basis in both India and Saudi Arabia and also the lack of Risk Management Framework as per guidelines are all factors that hamper the growth of MFIs. The findings highlighted that it becomes equally imperative for all MFIs in India and Saudi Arabia to build confidence of all customers and stakeholders.

Shafi (2015) in his study analyzes the prospects, the challenges of applying Islamic economic principles and its practical products and services in India. The researcher draws solutions to regulatory problems by adopting an exploratory method using secondary data from books, dissertations, reports of different organizations such as IFSB, S and P, and other financial periodicals. His study highlights that in the operation of an alternative Islamic financial system in India, the regulations become a major obstacle in its path to development. Over 500 Islamic institutes existing in India if registered under the regulation are restricted from taking deposits and if not registered, they cannot expand due to being unrecognized and hence remain small in size and risk being closed down.

Mohammed & Waheed (2018) conducted a case study on Al-Khair Cooperative Credit Society, an interest free microfinance institute in India. Their research was based on primary data collected using Questionnaire shared with Managing Director of Al-Khair and also various borrowers of the institute. The authors in their findings highlight some key issues arising in the collection of service charge on loans. The service charge being calculated was based on assumption and not on the basis of the actual cost incurred. There was absence of cost segregation based on the type of loan which may be different from one another. The researcher noted that the cost was being levied solely on the amount of the loan and was not linked with the time period, hence the positive and the negative impact of the loan repaid based on the time frame did not reflect in the service charges which is objectionable in the calculations as per the Shariah AAOIFI standards. The findings further stated issues in the method of calculation and distribution of profit and loss in the light of AAOIFI guidelines. The deduction of Al-Khair's share of profit at the inception of loan itself, no share in loss by the society, and the lack of track record of profit earned are also Shariah objections as per AAOIFI guidelines on equity base financing.

Yaqoob (2009) in his empirical study on Interest Free Financial Institutions in Kerala covers both the organized and unorganized sectors. The study makes an in-depth analysis of the functioning of the institutions and the satisfaction levels of beneficiaries also examining the problems and prospects of interest free institutions in Kerala. The findings show that among the general problems faced by interest free institutes are income tax laws on interest paid on loans, statutory reserve requirements by RBI, investment of a part of the financial debt on interest bearing securities issued by the government, shortage of working capital, how to deal with cases of delay in repayments, non-availability of well trained personnel understanding Islamic finance, lack of awareness and outreach, the lack of harmonization of Shariah standards with regards to screening of projects and lack of ethics and morality in conducting the principle of PLS in Islamic finance institutions.

3.0 Research Methodology

Since this research is both exploratory and descriptive in nature where by the examination will be on the issues and challenges of Islamic microfinance institutions, the study adopts the Quantitative approach. In this research, the primary data collected is quantitative in nature and the secondary data is entirely qualitative. The population is known and hence probability sampling or random sampling is selected. Hair, C. Black, J. Babin, & E. Anderson (2014) suggest that the minimum requirement for sample size is to have at least five participants per item. The questionnaire once completed was designed as a Google form, the link of which was then shared across various online social media applications and via emails. About 500 respondents were sent the link of which 303 responses were received. This sample size as stated earlier is considered to be significant as each variable or question in the data has more than five observations/respondents (Hair et al., 2014). In preparing the actual survey questionnaire, five-point Likert-scale is used, from 1 to 5 (1= strongly disagree to 5= strongly agree). The prior researchers who used five-point Likert-scale are Htay & Salman (2013), Htay & Salman (2014; 2013), Hassan et al. (2018), Hassan & Salman (2017), and Salman & Htay (2014).

4.0 Findings

Out of 303 respondents, 202 (72.6%) are male respondents and 83 (27.4%) are female respondents. The percentage shows that the male respondents are much higher than the female respondents. In terms of age, in this study, majority of the respondents are from the age group of 31-35 years with 63 respondents (20.8%), followed by the age group of 21-25 years and 36-40 years with 48 respondents in each representing 15.8% of the study. The age group of 26-30 years and 41-45 years had 42 respondents (13.9%) and 36 respondents (11.9%) respectively. The minority of the respondents are from the age groups 51- 60 years, 61- 65 years, 46 - 50 years and 66 years and above with 24, 18, 16 and 8 respondents representing 7.9%, 5.9%, 5.3% and 2.6% of the study respectively. The study shows that majority of the respondents are aged 21 to 45 years which represents a total of 78.2% of the study. This is because the questionnaire was disbursed online with links shared on various social network platforms like Facebook, Instagram, and WhatsApp and via emails.

4.1 Challenges of Islamic Microfinance in India

Statements in this section were drafted diligently after reviewing the challenges of Islamic microfinance in India. This section is devised based on Likert scale with 5 options, from one being strongly disagree to five being strongly agree.

Table 1 starts with a statement on India having no awareness of Islamic microfinance to which 77.6% agreed and strongly agreed, 12.9% remained neutral and 9.5% disagreed and strongly disagreed. This is consistent with Huma et al. (2019), where the respondents responded in majority with 90% saying yes there is lack of understanding of Islamic microfinance amongst the public of India.

When inquired about interest charge being the same in Islamic microfinance and other conventional finance institutions 35.3% disagree and 23.1% strongly disagreed. 24.4% remained neutral on the matter. The minorities 13.2% agree and 4% strongly agree that there is no difference of interest charged in Islamic institutions and conventional ones. The means in Table 1 range from 3 to 4. Except in this question the mean is 2.4 being the lowest average in the table. Likewise, the standard deviation in table 1 is in general below 1. But in this question standard deviation is above 1 at 1.099 which means the consistency in this question as compared to others is relatively low.

Studies have shown that Islamic microfinance lacks support from the government of India. Since the banking Act does not allow Islamic banks to operate in India, hence microfinance becomes the only way for Islamic finance to exist in India. But as stated by Nisar & Aziz (2004) microfinance institutions have no proper regulatory body for supervision and this becomes a major factor that hinders the performance of Islamic microfinance in India. This holds true in the survey when stated that there is no support from the Indian government for Islamic microfinance. Out of the total, 74% of the respondents agreed and strongly agreed that there is no support from the government. Amongst the total, 20.8% were neutral and merely 5.3% disagreed with the statement.

Previous studies have also shown that potential microfinance customers in India are in millions such that microfinance institutes would fall behind in meeting the demands for their services. But the coverage shown by microfinance service providers in the outreach hardly exceeds a million (Pandey & Aziz, 2017). This is clear in the survey when majority of the respondents at a whopping 92.1% responded positively to no proper marketing of Islamic microfinance products in India. Only 5.3% stood neutral and a mere 2.7% disagreed. The same reflects in the next statement where 68.6% agree there are no effective Islamic microfinance products in India. Although in this case 25.7% remained neutral. This could be due to lack of awareness of Islamic products as highlighted by Huma et al. (2019). The rest 5.7% disagreed with the statement.

The next question enquired from the respondents about there being no Shariah compliant investment institutions in India to which a majority of them at 59.1% responded positively, 25.4% decided to remain neutral and 15.5% disagreed to the statement. This shows that although there are Shariah compliant investments available in India, majority of the respondents have not heard of them. This is either due to the existing firms not being registered or licensed or being small in size or due to lack of proper advertisement as pointed out earlier.

The largest number of neutral responses found in table 1 at 37.6% was when enquired about the statement that there is no support from Islamic institutions like Darululoom Deoband and Darululoom Nadwatul Ulama. This could imply that out of the 303 respondents, 114 have either not heard of the named Islamic institutes or are unaware of their activities and involvement with Islamic microfinance. In any case, as pointed out by Kamal, 2013 from Sahulat Microfinance Society, lack of education in Islamic finance not only amongst the beneficiaries of Islamic microfinance but also the staff is a challenge in the growth and development of Islamic microfinance. The majority at 50.8% responded positively while 11.6% disagree that Islamic institutes provide no support to Islamic microfinance institutes. It is safe to say that for Islamic microfinance to be known and advertised well, Islamic institutes in India too need to advertise broadly their services and degrees offered in Islamic finance along with expanding their outreach to cover all parts of India.

The next question reflects the need of education in Islamic finance. The respondents were asked about the lack of human capital in microfinance in India and majority at 60.7% responded positively suggesting that there is a dire need of human capital in India. Out of the total, 20.8% remained neutral and 18.5% disagreed with the statement.

India is a country of diverse beliefs and religions. Within the religion of Islam, there exist many sects. Within a sect, there exists more than one madhab. In general, the madhab of Abu Haneefah (may Allah have mercy on him) is followed in India but other madhabs exist as well and sometimes there are differences of opinion within a madhab itself. A majority at 42.2% responded positively when said that following different madhabs in a company can cause difficulties. 30% disagreed and strongly disagree to the statement whilst 27.7% remained neutral.

According to Nisar (2002), the public has lost confidence in Islamic microfinance institutes and do not want to engage with them. When enquired in the survey, 32.4% agreed and strongly agreed with the statement. 25.1% remained neutral and 42.6% disagreed with the statement. Although the majority lies with the ones who disagreed but the difference between the agreed and disagreed is small. Moreover, the mean calculated in this statement is 2.88 which shows that the average is very low. The standard deviation as well is higher than 1 at 1.133 which depicts the data is not as consistent as the others.

High interest rates which was noted in many studies to be one of the issues in conventional microfinance, makes the poor in the society poorer and financially unstable. The results show that 88.1% of the respondents agree with this fact and 8.3% remain neutral while 4.6% disagreed with the statement.

Another issue with the outreach of Islamic microfinance as stated by previous studies is that microfinance institutes are concentrated in states that have lower poverty rate rather than focusing on rural areas. Majority of the respondents at 68% agreed to the statement that MFIs are mostly based in urban areas making it difficult to reach the poor. About 10.2% responded negatively and 21.8% opted neutrality.

As stated earlier in multiple research like that of Nisar & Aziz (2004) and Mohammed, H, & Waheed (2016) that there is a need of regulatory body for supervision of Islamic microfinance institutes. There is a need for a common Shari'ah Board that can govern the Islamic Finance activities within the country. In the survey, majority at 80.8% agreed and strongly agreed with the statement and a mere 3% responding negatively and the rest 16.2% remained neutral.

Conventional microfinance is meant to alleviate poverty. Several studies have been done to gauge the impact of microfinance on poverty. Many studies claim poverty reduction through microfinance whilst others criticize pointing it increases debt and financial instability. One of the reasons cited in the Andhra Pradesh crisis in 2010 was high interest rates charged by the microfinance institutes. Islamic microfinance on the other hand free from interest is believed to help in poverty alleviation. The respondent's response to the statement that Islamic microfinance does not reduce poverty, was negative at 39.3% and 26.8% agreed and strongly agreed with the statement and 34% remained neutral. The gap between those who agreed and disagreed is very small with the response of those neutral much high. Apart from this, the mean evaluated for this statement is much low at 2.82 signifying a very low average and a high standard deviation at 1.084. This shows inconsistency in the data for this particular statement in comparison to other statements in the survey.

The next survey questions were based on the need of tools that can provide transparency to the clients, need for new and different products offered by IMFIs, need for Payment Systems and electronic fund transfer and need for better networking between the company and the clients. To all these statements, majority responded positively agreeing and strongly agreeing to them with 90.8% being the highest amongst the responses. The minority that disagreed and strongly disagreed with the statements made was not more than 3.6%. The highest number of neutral responses for these statements was 12.9%.

Amongst the last questions in this section was that illiteracy, lack of education especially in finance in India in general makes it difficult for Islamic microfinance institutes to reach out to public. With only 10.6% taking a neutral stand, 85.4% agree with the statement and 4% disagree and strongly disagree with the statement.

Hence in this section, in Table 1 the expected challenges of Islamic Microfinance inferred from the literature review concur with the respondent's views in the survey.

Table 1: Challenges of Islamic Microfinance in India

No		Mean	Std. Deviation	Percentage		
1	There is no awareness of Islamic microfinance in India	3.99	.993	Strongly disagree	8	2.6
				Disagree	21	6.9
				Neutral	39	12.9
				Agree	132	43.6
				Strongly Agree	103	34.0
				Total	303	100.0
2	There is no difference between Islamic microfinance and other financial institutions in terms of interest charging.	2.40	1.099	Strongly disagree	70	23.1
				Disagree	107	35.3
				Neutral	74	24.4
				Agree	40	13.2
				Strongly Agree	12	4.0
				Total	303	100.0
3	There is no support from the Indian government for the Islamic microfinance	4.04	.934	Strongly disagree	5	1.7
				Disagree	11	3.6
				Neutral	63	20.8
				Agree	112	37.0
				Strongly Agree	112	37.0
				Total	303	100.0
4	There is no proper marketing of Islamic microfinance products in India.	4.33	.725	Strongly disagree	2	.7
				Disagree	6	2.0
				Neutral	16	5.3
				Agree	146	48.2
				Strongly Agree	133	43.9
				Total	303	100.0

5	There are no effective Islamic microfinance products in India	3.88	.906	Strongly disagree	5	1.7
				Disagree	12	4.0
				Neutral	78	25.7
				Agree	127	41.9
				Strongly Agree	81	26.7
				Total	303	100.0
6	There is no Shari'ah complaint investment institutions in India	3.62	1.054	Strongly disagree	10	3.3
				Disagree	37	12.2
				Neutral	77	25.4
				Agree	114	37.6
				Strongly Agree	65	21.5
				Total	303	100.0
7	There is no support from the Islamic institutions such as Darululoom Deoband & Darululoom Nadwatul Ulama.	3.56	.998	Strongly disagree	9	3.0
				Disagree	26	8.6
				Neutral	114	37.6
				Agree	94	31.0
				Strongly Agree	60	19.8
				Total	303	100.0
8	There is a lack of human capital for microfinance in India	3.53	1.054	Strongly disagree	14	4.6
				Disagree	42	13.9
				Neutral	63	20.8
				Agree	138	45.5
				Strongly Agree	46	15.2
				Total	303	100.0
9	Following different madhabs in a company in India can cause difficulties.	3.13	1.121	Strongly disagree	27	8.9
				Disagree	64	21.1
				Neutral	84	27.7
				Agree	100	33.0
				Strongly Agree	28	9.2
				Total	303	100.0
10	People do not want to engage with Islamic microfinance.	2.88	1.133	Strongly disagree	30	9.9
				Disagree	99	32.7
				Neutral	76	25.1
				Agree	73	24.1
				Strongly Agree	25	8.3
				Total	303	100.0

11	High interest rates make the poor even poorer and financially unstable.	4.39	.838	Strongly disagree	4	1.3
				Disagree	7	2.3
				Neutral	25	8.3
				Agree	97	32.0
				Strongly Agree	170	56.1
				Total	303	100.0
12	MFIs are mostly based in Urban areas instead of rural area making it difficult to reach the poor and those in need.	3.73	.918	Strongly disagree	7	2.3
				Disagree	24	7.9
				Neutral	66	21.8
				Agree	154	50.8
				Strongly Agree	52	17.2
				Total	303	100.0
13	There is a lack of a common Shari'ah Board that can govern all the Islamic Finance activities of the state or the country	4.04	.762	Strongly disagree	2	.7
				Disagree	7	2.3
				Neutral	49	16.2
				Agree	164	54.1
				Strongly Agree	81	26.7
				Total	303	100.0
14	Islamic Microfinance have a low effect on removing poverty.	2.82	1.084	Strongly disagree	36	11.9
				Disagree	83	27.4
				Neutral	103	34.0
				Agree	62	20.5
				Strongly Agree	19	6.3
				Total	303	100.0
15	There is a need of services and tools that can provide more transparency to the clients.	4.25	.667	Strongly disagree	1	.3
				Disagree	2	.7
				Neutral	27	8.9
				Agree	164	54.1
				Strongly Agree	109	36.0
				Total	303	100.0
16	There is a need of more new and different type of products offered by the Islamic microfinance Institutes.	4.11	.676	Strongly disagree	1	.3
				Disagree	3	1.0
				Neutral	39	12.9
				Agree	178	58.7
				Strongly Agree	82	27.1

				Total	303	100.0
17	There is a need of Payment systems and electronic funds transfer.	4.10	.774	Strongly disagree	3	1.0
				Disagree	8	2.6
				Neutral	35	11.6
				Agree	167	55.1
				Strongly Agree	90	29.7
				Total	303	100.0
18	Overall illiteracy, lack of education, especially in matters of finance makes it difficult for Islamic Microfinance Institutes to reach out to public.	4.20	.842	Strongly disagree	5	1.7
				Disagree	7	2.3
				Neutral	32	10.6
				Agree	138	45.5
				Strongly Agree	121	39.9
				Total	303	100.0
19	There is a need of a more developed reliable information software for better transparency	4.21	.760	Strongly disagree	6	2.0
				Disagree	2	.7
				Neutral	20	6.6
				Agree	169	55.8
				Strongly Agree	106	35.0
				Total	303	100.0
20	There is a need of better networking between the company and the clients.	4.25	.712	Strongly disagree	3	1.0
				Disagree	2	.7
				Neutral	24	7.9
				Agree	161	53.1
				Strongly Agree	113	37.3
				Total	303	100.0

5.0 Conclusion, Suggestion and Recommendations

Interest free microfinance or Islamic microfinance is the need of not just the Muslims of India, but all those in India who are financially excluded. Such institutes have been in existence in India since the 20th century and were gaining momentum during their initial stages. But over the course of time, Islamic microfinance institutes started facing hurdles in the path of development and could not reach the pinnacle achieved in countries like Malaysia, Indonesia and other GCC countries.

Not many studies have been conducted on Islamic microfinance in India. The limited literature available on the subject is mostly either a conceptual study, a case study on a particular IMFI in India, a general overview of IMFIs in India or IMFI from the

institute's perspective. Little to no literature exists on the customers' view on IMFI in India. In order to fill this void, the focus of this study was to gauge the challenges of Islamic microfinance amongst the general public of India.

The majority agrees that there is lack of government support, no proper marketing of Islamic microfinance products, no effective Islamic microfinance products in India, lack of human capital in microfinance, high interest rates make the poor financially unstable and lack of microfinance institutes in rural areas. When asked about Islamic institutes like Darululoom Deoband and Darululoom Nadwatul Ulama supporting Islamic microfinance, 37.6% of the respondents remained neutral. This could imply that the respondents have not heard of the Islamic institutes or not aware of their activities. This also highlights the need for existing Islamic Institutes in India to advertise their services and degrees offered in Islamic finance along with supporting Islamic financial institutes in their operations. Majority of the respondents also believe that there is need for tools that can provide transparency to the clients, need for new products offered and better payment systems with electronic fund transfer to ease transaction and enhance networking between the institute and the clients.

For any structure to remain strong and long lasting, its foundation must be built strong. A strong regulatory framework is the foundation for a successful sustainable microfinance industry. Although Self Help Group Bank Linkage Program model is well supervised and managed in India but there is no distinctive regulatory framework for microfinance in India and more so for Islamic microfinance in India. Currently, regulation is under the purview of the state governments, hence there is a need for an exclusive regulation to regulate MFIs in India.

The objective of Islamic microfinance institutions is to provide the poor cheap financial services. In order to recognize the poor in India, research needs to be done and transparency is needed in reporting the financial status of the individuals in India. The research will highlight financial barriers and the regions and communities that need to be targeted by the microfinance industries to further financial inclusion. The result of the research will give way to policies and impact of such policies on poverty alleviation.

Providing the right type of products will cater to the supply side of IMFIs in India and financial inclusion. In order to cater to the demand side, financial education and promoting awareness among the people about the needs and benefits of financial services is essential. IMFIs need to effectively market their products through continuous advertisements across different social media platforms. As seen from the results of the survey, that although respondents maybe aware of the term Islamic microfinance, they have not much knowledge of the products and services offered by IMFIs. Hence much attention should be directed in educating the masses on the functions and products of IMFIs through campaigns, seminars, short courses etc.

In this regard, Islamic Institutes and Islamic schools/Madrasas should include extensive education on finance and Islamic finance in their syllabus. Imams of the masjid should impart knowledge and importance of Islamic finance through their sermons and initiate courses for not just the men but also the women of the society. Universities and colleges should include Islamic Finance into their curriculum which will

not only cater to the increase in human capital for IMFIs in India but also enable the graduate to avail stable jobs in India and across globe.

Along with this, IMFIs need to strengthen capacity building initiatives. This will help promote proper use of credit and timely recovery. IMFIs need to closely engage with their customers to understand their basic needs and investments needs. Training and financial advice should be provided to borrowers specifically those who are self-employed. This will amplify their business skills to manage and use credit productively and establish market channels for their products. This will ensure lower rate of defaults on credit.

The operational costs of the IMFIs should be further studied and innovative concepts should be brought in to reduce operational costs. Bringing IT into the infrastructure and building the digital services can help boost productivity along with cutting costs in the long run. New initiatives have been taken by the Reliance telecom agency in India to provide free of cost internet services to startups along with providing cheap internet services to the general masses in India. This will also help in building a stronger and real time communication among IMFI and its customers.

IMFIs should be encouraged to open in areas most needed and open multiple branches to increase penetration of microfinance amongst the poor and the low-income population.

There is a need of a unified Shariah Board in India that can affirm the public of the IMFIs, and their products and services offered. This will build and strengthen confidence in the public for IMFIs and do away with Ponzi schemes and businesses that taint the image of IMFIs in India.

Emphasis need to be given to for-profit IMFIs based on the models. This kind of model ensures stability and less dependency on funds. Care must be taken to ensure that for-profit IMFIs maintain the objective of reaching the needy and being poor friendly. The successful operation of IMFIs in India will help in poverty alleviation, uplift the Muslim minority and also attract foreign investments from across the globe thereby boosting the economy of India.

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