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FINANCIAL INCLUSION IN ISLAMIC FINANCE

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CORE PRINCIPLES OF INCLUSION IN ISLAMIC FINANCE

- The core principles of Islamic finance lay great emphasis on **social justice, inclusion, and sharing of resources between the haves and the have nots.**
- Islamic finance addresses the issue of "financial inclusion" or "access to finance" from two directions – through **promoting risk-sharing contracts** that provide a viable alternative to conventional debt-based financing, and through specific **instruments of redistribution** of the wealth among the society.
- Use of **risk-sharing financing instruments** can offer **Shariah-compliant microfinance, financing for small and medium enterprises, and micro-insurance** to enhance access to finance.
- **Redistributive instruments** such as **Zakah, Sadaqat, Waqf**, and **Qard-al-hassan** complement risk-sharing instruments to target the poor sector of society to offer a comprehensive approach to eradicating poverty and to build a healthy and vibrant economy.

INCLUSIVE INSTRUMENTS OF ISLAMIC FINANCE

- Islam offers **a rich set of instruments and unconventional approaches**, can lead to reduced poverty and inequality in many Muslim countries plagued by massive poverty. Policy makers r "financial inclusion" should exploit the potential of Islamic instruments to achieve this goal and focus on improving the **regulatory and financial infrastructure** to promote an enabling environment.
- In Islamic jurisprudence, a **comprehensive ethic** has been formulated governing how business and commerce should be run, how **accountability to Allahu Subhanu taala and the community** is to be achieved, and how financial market is to be arranged
- ACCORDING TO Global Financial Development Report 2014,

the proportion of **adult population holding bank accounts** in 25 out of 48 Organization of Islamic Cooperation (OIC) member countries surveyed stands **below 20 %.** Part of the reason is Muslims' voluntary exclusion of interest-based financial services. On average, **28 % adults in the OIC countries hold a bank account at a formal financial institution**. On the other hand, only **7.7 % of the poorest 40 % people in the OIC countries borrow from financial institutions**

CONCEPT OF ECONOMIC DEVELOPMENT AND INCLUSION IN ISLAM

Islam is considered a **rule based system** which specifies **rules for social and economic activities of the society**. In this respect, economic principles of Islam deal with the rules of behavior similar to the concept of economic institutions, as they relate to **resource allocation, production, exchange, distribution and redistribution**, economic implications of the operations of these rules and incentive structure and policy recommendations for achieving rules compliance that would allow convergence of the actual economy to the ideal economic system envisioned by Islam.

- Islam asserts unambiguously that **poverty is neither caused by scarcity and paucity of natural resources, nor is due to the lack of proper synchronization between the mode of production and the relation of distribution, but as a result of waste, opulence, extravagance and nonpayment of what rightfully belongs to the less able segments of the society**. The conventional and Islamic economic systems agree that there is always a room for financial inclusion in the face of poverty, unemployment, hunger and exploitation. while there is a broad agreement in respect of the need for financial inclusion, there are certain perceived differences in respect of methodology.
- The emphasis in the **conventional approach** is on inclusion through financial intermediation, that is, through the banking and credit system. The **emphasis in the Islamic system**, on the other hand, is on **the proactive role of the government** signifying direct cash transfers in favor of the poor and the needy.

INCLUSION THROUGH ISLAMIC INSTRUMENTS OF REDISTRIBUTION

The prophet (pbuh) arranged for the financial inclusion at two levels, at the state level and secondly, at the individual and community level. At the first level, a regular flow of funds from rich to the state (public treasury) and then from the state to the poor and needy was arranged.

- Islam places great emphasis on redistribution of income and wealth and legislates institutions for this purpose such as **Zakah, Sadaqat, Qard-al-hassan and Waqf.** It is important to realize that in no way are these levies to be considered charity, as often misunderstood by laymen and scholars alike. These instruments are envisaged to **enhance access to financing while addressing equity and contributing to poverty alleviation**
- **Zakah**, an individual who earns more than what he or she consumes must pay Zakah, which is calculated according to his or her level of net worth ,essentially a wealth tax. Business capital and housing are exempt from Zakah taxation in order to promote investment in capital and construction and to encourage home ownership.

INCLUSION THROUGH ISLAMIC INSTRUMENTS OF REDISTRIBUTION

- **Sadaqat** (voluntary social spending). The term sadaqat is a derivative of the root word meaning truthfulness and sincerity because such contributions or payments are symbolizes the strength of the sincerity of a person's belief. The rationale of Sadaqat payments is explained as the expenditures intended for redeeming the property rights of those who are excluded from the production cycle for any reason.
- **Kard al Hassan** (literally meaning a beautiful loan) which is a loan granted to the needy and is mentioned in the Quran as "beautiful" al Hassan. It is a voluntary loan without the creditor's expectation of any return on the principal, while the debtor is obligated to return the principal, the creditor, on his own free will, does not press the debtor for an exact timing of its return. Obviously it is a potential institution to mobilize substantial resources for the empowerment of the economically waived or dispossessed ,
- **Waqf** is basically real non perishable properties that are voluntarily donated for philanthropic purposes. Waqf are dominated by fixed property mainly land or buildings, but can be applicable also to cash, shares, stocks, and other assets. Waqf are usually named endowments in Non Muslim countries and are providing a wide range of services especially in education and community services.