

# INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

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**POVERTY ERADICATION THROUGH INTEREST FREE FINANCE: A CASE STUDY**

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**ABSTRACT**

*Poverty is the main burden of any society or any country. The economic imbalance is common world wide. It can be minimized by various activities and methods. Interest free institutions are one among the methods of poverty eradication. The paper focuses the need and importance of interest free micro financing institutions instead of interest based micro financing institutions. This paper analyzes the services of the Al-Ameen Welfare Society, Perimbalam; an interest free micro financing firm established in 1991. Author concludes the paper by suggesting establishing such type of interest free micro financing firms throughout the country; it will be a great relief to the poor society.*

**JEL CODE**

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**KEYWORDS**

Poverty eradication, Micro financing institutions, interest free micro financing institutions, Al Ameen welfare society.

**INTRODUCTION**

**M**icro finance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfer and insurance to poor and low income house holds and their micro enterprises. Commercial banks in most developing countries, excludes poor clients through imposing strict rules and regulations. Micro finance has evolved a need based policy and program to cater to the neglected groups of the society especially women, poor, rural, deprived etc. Even though Micro finance has become one of the most effective inventions for the economic empowerment of the poor, the conventional interest based micro financial institutions leads to increase the gap between haves and have notes. So a paradigm shift is to be done from interest based financial system to interest free financial system.

**MICRO FINANCE IN INDIA**

In India, a variety of micro financial institutions have been established in both government and non-government sector. Leading financial institutions like- the National Agricultural and Rural Development (NABARD) the Small Industries Development Bank of India( SIDBI) etc have played a significant role in making micro credit a real movement in India. Since the majority of the population of India hailing from rural areas, and the target users of the micro financial institutions are poor people, and the majority of financial institutions are interest based, the interest free micro financial institutions have great relevance.

**INTEREST- FREE ECONOMIC SYSTEM**

Interest-free economic system is an economic system highlighted by Islam. The rationale behind the interest-free economy is interest is not in the interest of humanity. Interest makes the money a commodity and an end in itself. When money becomes the end of economic activities, production, distribution and values get distorted.

The interest free microfinance that is growing in the country in various models and it is becoming influential organizations in several parts of the country. It will help to reduce the vulnerability of the poor and disadvantaged section of population through economic empowerment. The growing interest free co operatives, collectives and self help groups will lead to the economic empowerment of the nation. Economic empowerment really benefits to the poor people through creating new employment. Poverty alleviation will be the result. Interest free microfinance availing financial services to the poorest of the poor by incorporating charity and zakat with microfinance.

**AL-AMEEN WELFARE SOCIETY- PERIMBALAM**

Al-ameen welfare society was established by a group of well wishers in 1991 Perimbalam village in the Malappuram District. It was registered under the societies registration act. The aim of this society was to give financial assistance to purchase durable goods without interest to the poor people, who were not able to purchase the goods by giving full payment at a time.

**REVIEW OF RELATED STUDIES**

Thariq Azeez and Mohammed shamsher (2012) says in their paper entitled, "Interest free micro finance model: a path towards sustainable development" that micro finance to poorest is the best method to alleviate poverty. The objective of the study was to determine the impact of micro finance on sustainable development and to develop an alternative model of micro finance. The study was conducted by using secondary data.

Arshad Ajmal (2011) explores the cooperative model for interest free microfinance in India. The study was based on reports and studies as well as personal observation of the ground. The study highlights that the interest free microfinance, as envisaged by its proponents, is an endeavor towards financial alternative against the existing economy ridden with poverty and disparity. It also deals with criticism on microfinance and underlines the potential of microfinance to remove disparity in economy. Situation of informal sector working class in India has also been taken into account. It also tries to evaluate whether the economy of unorganized sector in itself has potential for a viable, efficient and acceptable financial alternative. Without any class-conscious bias, this aspect needs to be appreciated and valued by all who believe in justice and equity in economy. In this backdrop, it is suggested that the main thrust should be on Muslims, Dalits (Schedule Castes) and Adivasis (Schedule Tribes).

Rahmathullah, AI (2009), in a comprehensive study on the use of microfinance to combat poverty, argue that well designed programmes can improve the incomes of the poor and can move them out of poverty. They state that "there is clear evidence that the impact of a loan on a borrower's income is related to the level of income" as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit.

**NEED AND IMPORTANCE OF THE STUDY**

Poverty is the main burden of any society or any country. The economic imbalance is common world wide. It can be minimized by various activities such as government initiatives, NGOs, charity organizations etc. in our country, there are a number of such NGOs and charity organizations. According to Muhammed Palath (2010), This type of microfinance institutions in Kerala are known as interest free nidhis or paraspara sahaya nidhis. The capital of each nidhi is a

collection of fund by donations, charities, small savings etc. Here an analytical study about one such organization ( Al Ameen welfare society –perimbalam, Malappuram,Kerala) has been done.

**STATEMENT OF THE PROBLEM**

Poverty eradication through interest free finance: a case study.

**OBJECTIVES**

- To find out the role micro financing institutions in helping poor people.
- To analyze the services of Al Ameen welfare society.
- To understand the satisfaction level of the Al Ameen welfare society.

**HYPOTHESIS**

- There is a remarkable role to Al-Ameen welfare society in helping poor people in the village.
- The service of Al-Ameen welfare society is a great relief to Perimbalam village.

**METHODOLOGY**

Both primary and secondary data have been used for the study. Primary data has been taken from the beneficiaries of al-ameen welfare society. The secondary data has been taken from the records of the society. Convenient sampling method was used for the study.50 beneficiaries were taken as the sample. Schedule method was used for collecting primary data. Data analysis has been done using appropriate statistical tools and techniques such as percentage & simple mean.

**DISCUSSION AND FINDINGS**

**CAPITAL**

The initial capital (1991) of the society was Rs. 10,000, which was taken by the members as donation. After years, society received shares from the members with the condition of getting 50% of the total profit. The rest 50% of the profit was merged into the capital of next year.

**FUNCTION**

The function of the society is to give financial help without interest, for buying durable goods for people in the Perimbalam village. It is functioning like financing for vehicles by financing companies presently. The society and shops who are the dealers of the durable goods such as house holds, furniture etc. were signed in business agreement. According to the agreement, the society will get goods in wholesale price. The clients were issued token, and by producing the tokens in concerned shops they were sold the items which they want.

Payment of the product will be done by society immediately after the sales. Customers have to repay this amount by 10 equal installments to the society. The society has completed twenty years of its service successfully and it could help hundreds of poor people in the society. The numbers of the consumers of last ten years have been listed below.

**TABLE NO.1: NO. OF BENEFICIARIES OF THE SOCIETY LAST 10 YEARS**

YEAR	No. OF CONSUMERS
2004	94
2005	95
2006	120
2007	115
2008	126
2009	122
2010	121
2011	123
2012	129
2013	145

Source: primary data

The above table shows that, there is an incremental fluctuation in the number of beneficiaries of the society. The society expected to be reached around 120 per year.

**UTILIZATION OF AL-AMEEN SOCIETY**

The people around the al-ameen society are utilizing the service of the firm for purchasing the consumer durable house holds. The following table shows the details of the utilization of the people.

**TABLE NO. 2: USERS' USAGE TURN IN THE YEAR 2013**

Usage- No	No. of users	%
Fist time	27	22
Second time	39	32
three or more	57	46
Total	123	100

Source: primary data

The table shows that, there is tendency that those who have experienced the service of the society once, again and again depending the society. 22% of users of 2013 are new consumers, 32 are using for second time and majority (46%) are third time or above it.

**SATISFACTION LEVEL**

The feed back of the customers/ beneficiaries is very important for the existence of firm. The following table and figure shows the satisfaction level of beneficiaries.

**TABLE NO. 3: SATISFACTION LEVEL OF USERS**

Satisfaction level	score	No. of beneficiaries	Total score
Highly satisfied	5	28	140
Satisfied	4	14	56
Neutral	3	7	21
Dissatisfied	2	1	2
Highly dissatisfied	1	0	0
	Total	50	219
	Mean score		4.38

Source: primary data

The table and figure show that, above 80% of the beneficiaries of the society are either highly satisfied or satisfied with the services of the society.



**REASON FOR UTILIZATION OF SERVICE OF THE SOCIETY**

Three attractions of the society have been taken for the study.

**TABLE NO. 4: REASON OF UTILIZATION**

Reasons	preference		
	1	2	3
N o. Interest	50(100%)	0(0%)	0(0%)
Installment facility	0(0%)	48(96%)	2(4%)
Easy transaction	0(0%)	2(4%)	48(96%)
Total	50	50	50

Source: primary data

100% respondents given first preference to 'non-interest feature', 96% gave second preference to 'installment feature'. This shows that, non-interest feature and installment facility attract most of the people.

**TESTING OF HYPOTHESES**

Hypothesis 1. There is a remarkable role to Al-Ameen welfare society in helping poor people in the village

To test this hypothesis chi-square test is applied. The result is shown in the table No.1

Calculated $\chi^2$ value	Degree of freedom	Level of significance	Table value
17.348	9	5%	16.919

Here the calculated value is greater than the table value. So we accept the hypothesis, that there is a remarkable role to Al-Ameen welfare society in helping poor people. So they could reach to more beneficiaries than their expectations in last years.

Hypothesis 2. The service of Al-Ameen welfare society is a great relief to Perimbalam village.

The table No.3 shows the mean score is 4.38, so we accept the hypothesis. In this analysis, it is understood that, most of the respondents are satisfied with the service of the society. It ultimately means that the society is a great relief to the perimbalam village.

**FINDINGS**

1. Interest free micro financing institutions are highly depended by poor people.
2. The main attraction of this type of institutions is it is interest free.
3. Those who have experienced the service of interest free micro institutions tend to use more time.
4. Most of the users of interest free institutions are highly satisfied with their service.

**SUGGESTIONS**

On the basis of analysis of the functioning of the society, the researcher suggests the following points:-

1. Government has to take initiative to start such type of endeavors throughout the country. So as to decrease the gap between haves and have-nots.
2. Rural areas of India have to be given more importance.
3. Government has to persuade this type of NGOs based on interest free financing firms, since these firms are capes of good hope to the rural society of the country.
4. The above mentioned organizations will have to give assistance for house constructions.
5. Interest free vehicle loans can also be given by this type of institutions.
6. Interest free agricultural loans can also be given by this type of institutions.
7. Implementing such type of financial institutions, public get opportunities to invest their excess money.
8. Investment received by the general public can be utilized for social development through improving the infrastructural facilities.

**CONCLUSION**

Interest free financial system, the financial system is the solution of problems of interest based financial system. The interest based financial system increases the difference between haves and have-nots, whereas the financial system minimizes the gap between haves and have-nots. The acceptance of interest free micro finance system is being increased throughout the world.

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