Relevance of Islamic Economic Measures in Achieving Inclusive Growth in Muslim Minority Countries: A Case Study of Kerala, India

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The study examined the performance of interest-free financial institutions and Zakah committees in Kerala, India; and assessed its role in achieving inclusive growth among its beneficiaries in the state, using both secondary and primary data collected from 25 IFFI and Zakah committees each and random samples of their 100 beneficiaries each during May- July 2011. The findings revealed distinct methods of raising funds under the two systems. Zakah units provided non-refundable financial assistance with no collaterals attached, while the IFFI demanded different types of collaterals to ensure repayment for further distribution of the same. This led to financial inclusion of a larger number of the poorest and needy in the society under the two interest-free systems. The two beneficiaries' background revealed it to be male dominated. Given its funding principles, the Zakah catered to more socially and economically backward individuals compared to the IFFI. The major problems confronted in obtaining funds by the IFFI beneficiaries were insistence of security and processing delays. On the other hand, the problems reported by Zakah beneficiaries were inadequate identification of target beneficiaries, long processing delays and non-availability of regular officials. These problems need to be immediately addressed for greater effectiveness of the two systems. A comparison of annual income of the two categories of beneficiaries before and after the financial assistance showed that both the systems contributed to improved living standards of the respective respondent households. Thus, the two funding systems not only led to financial inclusion of the poorest, but also contributed to their sustainable development through self employment.

Keyword: Zakah; Interest-free financial institutions; Beneficiaries; Inclusive growth; Islamic banking; Collateral-linked loans

Section – I: Introduction

Sustainable economic development requires participation of all sections of society in the developmental process. Social exclusion arising out of lack of equal participation has the potential to trigger more serious socio-economic consequences. As finance is the core of development process, a well-functioning and efficient financial system is crucial for directing funds to productive use by allocating it to those who can invest it. This improves opportunities and enhances economic growth, thereby reducing

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income inequality and poverty. Generally in economies functioning under interest-based financial system, low income sections are excluded from growth as their credit requirements are not honoured by banking system due to the low credit worthiness of the poor. In such economies, a vast majority of the poor are constrained to bank on the unorganized money markets, which ultimately land them in perpetual indebtedness and deprivation. Moreover, the very existence of interest institution reduces the opportunities for profitable investment, as only economic ventures which fetch returns above interest rate would be economically viable, with the result that growth of employment opportunities in such economies would be inadequate (Usmani, 2005).

The benefits of financial development are not accessible or available to many individuals and enterprises, particularly in the interest-ridden economies. Even if available and accessible, they come at the cost of high interest rates and need for collateral, which results in financial exclusion. Further, it has benefited the corporate sector more, rather than the vast household sector (Usmani, 2005). The inability of interest-ridden economic system to attain full employment and eradication of poverty has been pointed out in unmistakable terms by veteran economists, like Keynes, Samuelson and Domar. From the early 1950s, attempts have been made to develop an alternative financial system devoid of interest by a team of Muslim economists. From the 1970s, working models of interest-free banks began to come up. Interest-free banks came to be set up under state patronage in countries, like Pakistan, Sudan and Malaysia (Ibrahim, 2000; Usmani, 2005). Convinced by large demand and enormous scope for interest-free products and services, several established conventional banks in the West have been lured into opening interest-free counters or Islamic windows in a few countries in recent times. In the wake of disintegration of socialistic system and continuing crises in the capitalist system of which the most recent example is the global meltdown of September 2008, the economic system of Islam has attracted the attention of the mainstream economists.

While the conventional banks rely upon rate of interest, the interest-free banks depend upon profit-loss sharing and disfavours investment in lending for interest (Kahf, 1989; Anwar, 1989; Alam 1966). The two pillars on which the whole economic system of Islam is erected and the measures primarily employed to achieve growth and distributive justice are: i) prohibition of interest, and ii) implementation of Zakah (Yakoob, 2009). Since the system does not lend funds on interest, it resorts to certain innovative techniques in deploying funds with a view to earning profit for the banks. The main financial practices employed include: Mudarabah (a business partnership in which an investor provides capital to an entrepreneur who undertakes investment activity), Musharakah (equity financing), Baimuajjal (deferred sale), Ijarah (leasing), and Quard hasan (benevolent loan) (Chapra, 1985; Imtiazi, et.al, 1989).

India is one of the countries where interest-free financial institutions have been functioning for long, although the existing banking laws of the country pose serious constraints to the efficient discharge of banking function by these institutions. According to the latest available evidence, there are some 360 interest-free institutions operating in the Indian state of Kerala alone (Yakoob, 2009). These, like their counterparts in the rest of India, by and large operate in the unorganized sector under the patronage of local religious organizations. They mobilize deposits in the form of shares as well as donations raised from the public. They give loans with or without collateral securities, and also do investment financing. A part of the capital raised by them is invested in industrial venture and business of various sorts. Profit or loss is shared with the concerned business partner in pre-determined ratios. Trade financing is also done by them on the basis of profit-loss sharing. They give interest-free loans to the weaker section of the society with or without service charges, with a view to helping them to meet the expenses of medical treatment, marriages of daughters and other essential consumption requirements (Faridi, 1993; Rahman, 1998; Ramzan, 2001).

Zakah is undoubtedly the most important measure laid down by Islam for tackling the problems of poverty, unemployment and inequality. It is a compulsory religious levy imposed on various forms of income and wealth of the rich, so as to be distributed among certain prescribed categories, of which the most important are the poor and needy. Islam considers Zakah as the rights of poor in the wealth of rich, which if the rich refuse to part with, the state may forcibly take over. The rates of Zakah vary from 2.5 to 20 per cent, depending upon the differences in the nature of the sources of income. The rates and heads of expenditure are divinely determined. Though Zakah can be distributed in terms of money, food and capital goods, the last one is the most preferred by the jurists. In distributing Zakah, work experience, occupational skill and socio-economic background of the potential recipients are to be considered (Imitiazi, et. al., 1989; Kahf, 1989; Al-Qaradawi, 1992). The Zakah system as envisaged by Islam can be effectively implemented only in an economy where an Islamically committed government functions. However, Zakah being a compulsory personal religious obligation, Muslims even in non-Muslim countries have been keen on discharging this religious duty as best as they can. Muslims living in many non-Muslim societies have attempted to administer Zakah in the best possible manner keeping in view the broad socio-economic objectives envisaged by Islam, inspite of obvious constraints in such societies. In the absence of Muslim governments, the predominant practice in such societies conventionally has been the one based upon person-to-person payment (Ibrahim, 1991; Ramzan, 2001).

Kerala has remained a secular society par excellence for centuries. Muslims of Kerala are supposed to have practiced Zakah right from the early centuries of Islam. Till the early decade of the twentieth century, Muslim masses of Kerala were generally ignorant about the right nature of Zakah. They practiced the distorted form characterized by person-to-person payment, the coverage of Zakah being confined to a few wealth/income categories, explicitly mentioned in the Classical text of Islamic jurisprudence. Many categories of wealth/income, having great relevance in the local economy remained ignored in the process. Things began to change after the second half of the twentieth century, when reformist ideas began to influence a considerable section of the Kerala society and religious reformist organizations, like Nadvathul, Mujahidean and Jamat-e-Islami, made concerted and systematic efforts in making mass awareness about the collective procurement and distribution of Zakah fund and presented a working model of Islamic system of Zakah (Ibrahim, 1991; Ramzan, 2001).

Though India is a Muslim minority country, it has the second largest Muslim population (160 million) next to only Indonesia. In Kerala, the most socially developed state of India, Muslims account for roughly one-fourth of its population of 32 million. Muslims of the state are educationally, economically and politically better placed compared to their counterparts in the rest of the country (Government of India, 2006).

Reportedly, it has the largest number of interest-free financial institutions operating in India (about 30% of national total) (Yakoob, 2009). Kerala is also in the fore-front of other states in respect of social arrangements for organized administration of Zakah. Hence, it is deemed important to examine the functioning of Islamic financial system and its benefit to people in Kerala.

Against this background, the main objectives of the present study are:- i) to examine the performance of interest-free financial institutions (IFFI) and Zakah committees in Kerala, India; and ii) to assess the impact of assistance offered by the two systems to the sample beneficiaries in Kerala during the survey.

The remaining paper is organized as follows. After the brief introduction in section – I, section – II outlines the data and methodology used by the study. Section – III discusses the results, while the final section gives the concluding remarks.

Section II: Data and methodology

The present study examines fund distribution by two types of popular interest-free financial assistance systems aimed at inclusive growth and poverty alleviation in Kerala, India, viz., interest-free financial institution (IFFI) and Zakah. The origin of IFFI in Kerala may be traced back to the 1960s. According to Official Records, currently more than 360 such institutions are in operation in the state, which are largely located in the districts of Kozhikode, Malapuram, Kannur, Kasargode, Kottayam, Eranakulam and Trivandrum. Besides, there are more than 1000 systematic Zakah committees functioning in the state for the benefit of the poor. They are managed under the supervision of Mahal/Zakah committees, involved in collective procurement and disbursement of Zakah in various parts of the state. Even though Zakah committees are currently able to mobilize only a fraction (10%) of the potential funds, the experience of all Zakah committees is that the annual growth in its revenues received has been increasing significantly and progressively over time, varying from 4.0 to 60 per cent (Ramzan, 2001).

On the basis of their performance, 25 IFFI and Zakah committees each located in five prominent districts of Kozhikode, Malapuram, Kottayam, Eranakulam and Trivandrum in Kerala have been selected for the study. Random samples of 100 beneficiaries of each have been interviewed from these sample interest-free financial institutions and Zakah units to assess their economic impact on the respondents' households. Both the secondary and primary data have been collected using pre-tested schedules during May- July 2011. The objectives of the study have been examined using simple averages, percentages and ratios.

Section – III: Results and discussion

This section discusses findings with respect to the operation of IFFI and Zakah units, and their impact on their respective beneficiaries during the study period. The Zakah committees receive their funds purely through charity contributions of benevolent individual donors from their annual income. Whereas, each IFFI has different methods (atleast more than two) of raising their funds, which include donor agencies, individual donors, non-government organizations (NGOs), members/savers, chits, murabaha and mudarabah. Table – 1 shows the methods of raising fund by IFFI and Zakah units.

Table 1

Fund-raising methods of IFFI/Zakah committees

Sl. No.	Methods	IFFI	Zakah
1.	Donor agencies	1	–
2.	Individual donors	5	25
3.	Members/savers	5	_
4.	Chits	4	–
5.	Murabaha	2	–
6.	Mudarabah	8	–
7.	NGO	–	–
	Total	25	25

Majority of the sample IFFI raise funds through mudarabah (8), individual donors and members savers (5 each) and chits (4). About two do it through murabaha and one through donor agencies. Thus, although both the funding systems have different methods of fund-raising, Zakah benefits the poorest more than the IFFI.

Table 2 furnishes information on the financial status of the IFFI and Zakah.

Table 2

Financial status of IFFI/Zakah committees

Sl. No.	Amount (in Rs.)	IFFI	Zakah
1.	Below 1 lakh	3	2
2.	1 – 5 lakhs	7	5
3.	5 – 10 lakhs	8	14
4.	10 – 25 lakhs	3	3
5.	25 – 50 lakhs	2	1
6.	50 and above	2	–
	Total	25	25

Majority of the IFFI have funds worth Rs. 5 – 10 lakhs (8) and Rs. 1 – 5 lakhs (7). About three each have funds amounting to Rs. 10 – 25 lakhs and less than Rs. 1.0 lakh. Only two each have Rs. 25 – 50 lakhs and above Rs. 50 lakhs worth of funds. As regards the Zakah, 14 have funds between Rs. 5 – 10 lakhs, five between Rs. 1 – 5 lakhs, three Rs. 10 – 25 lakhs, two below Rs. one lakh and only one between Rs. 25 – 50 lakhs. The difference in fund status of the two systems is mainly attributable to the charitable nature of the Zakah committees.

Nature of collaterals required for obtaining financial assistance under IFFI and Zakah are shown in table 3. The collateral may be in the form of gold ornaments and property documents. Giving loans on the personal guarantee of share-holders or very important persons in the locality are also quite common.

Table 3

Nature of collaterals required by IFFI/Zakah committees

Sl. No.	Nature	IFFI	Zakah
1.	Gold	7	–
2.	Membership	10	–
3.	Personal guarantee	7	–
4.	No collaterals	1	25
	Total	25	25

Zakah, being a purely charity institution catering to the poorest and needy, demands no collateral from its beneficiaries for the financial assistance extended. On the other hand, majority of the IFFI requires those seeking financial assistance from it to be its members (10). About seven each require gold and personal guarantee as collaterals, while only one does not demand any collateral. The latter system demands collaterals to ensure recovery of the financial assistance extended, so as to benefit more number of needy members of the society under the system.

The purposes for which IFFI and Zakah provide funds are illustrated in table 4.

Table 4

Purpose for which funds are provided

Sl. No.	Purpose	IFFI	Zakah
1.	Self employment	25	19
2.	Medical expenses	25	11
3.	Debt repayment	25	14
4.	Housing/Repair	25	17
5.	Education	25	13
6.	Pension	–	7
7.	Real estate	25	–
8.	Others	25	8

The entire 25 sample IFFIs provide financial assistance for self-employment, medical expense, debt repayment, house construction/repair, education, real estates and other purposes. Among the sample Zakah committees, majority provide assistance for self-employment (19), housing/repair (17), debt repayment (14), education (13) and medical expense (11). About eight provide assistance for other purposes, and seven for pension. Thus, the latter mainly caters to particular needs of the needy.

Table 5 gives information on duration for which the IFFI and Zakah provide funds.

Table 5
Duration of funds offered by IFFI/Zakah

Sl. No.	Duration of funds	IFFI	Zakah
1.	Up to 3 months	3	–
2.	Up to 6 months	15	–
3.	Up to 9 months	–	–
4.	Up to 1 year	7	–
5.	Non-refundable	–	25

While 15 IFFI provide funds for upto six month period, seven give for upto one year, and only for three months. This is mainly due to their low fund positions and the need to extend the financial assistance to more number of people. On the other hand, the funds provided by Zakah are non-refundable, as they are given in charity to those in dire needs.

Table 6 presents the socio-economic background of IFFI/Zakah sample respondents during the survey.

Table 6
Socio-economic background of IFFI/Zakah sample beneficiaries

Sl. No.	Details	IFFI	Zakah
A.	Gender:		
1.	Males	67	80
2.	Females	33	20
	Total	100	100
B.	House ownership:		
1.	Owned	83	88
2.	Rented	10	12
3.	Others	7	–
	Total	100	100
C.	Type of house:		
1.	Thatched	–	10
2.	Concrete	20	18
3.	Tiled	80	72
	Total	100	100
D.	Type of family:		
1.	Nuclear	57	80
2.	Joint	43	20
	Total	100	100
E.	Debt:		
1.	Yes	54	74
2.	No	46	26
	Total	100	100

Under both the IFFI and Zakah, more number of male sample beneficiaries (67% and 80% respectively) seek financial assistance compared to the females. This could be because conventionally the males are heads of the household and major financial decision makers.

House ownership shows almost similar condition, with majority of the beneficiaries having own house under institutions (83) and Zakah (88), and 10 and 12 respectively residing in rented house. Only seven under institutions reside in their relatives' or friends' house.

Type of house reveals that while 10 Zakah beneficiaries stay in thatched house and 18 live in concrete house. The remaining 72 stay in tiled houses. As regards the IFFI beneficiaries, 80 live in tiled houses and the rest in concrete house. This highlights the relative economic backwardness of the Zakah beneficiaries, compared to their IFFI counterpart.

As regards family type, 57 IFFI beneficiaries live in nuclear and 43 in joint families, while their percentages are 80 and 20 respectively under Zakah.

Debt positions of the two categories of sample households show that more Zakah beneficiaries have debts, owing to their relatively poor economic background, compared to the IFFI beneficiaries.

Table 7 shows details of family size of the two categories of sample beneficiaries during the survey.

Table 7

Family size of the IFFI/Zakah sample beneficiaries

Sl. No.	Size	IFFI	Zakah
1.	1 – 2	4	8
2.	2 – 4	13	12
3.	4 – 6	50	60
4.	6 – 8	23	14
5.	Above 8	10	6
	Total	100	100

The table reveals the IFFI beneficiaries to be having larger families than the Zakah beneficiaries during the survey. About half of the former have 4 – 6 family members. Almost one-quarter have a family size of 6 – 8 (23) and above eight members (10). Only 13 have a family size of 2 – 4 members and four of 1 – 2 members. Among the Zakah beneficiaries, 60 have a family of 4 – 6 members, 14 of 6 – 8 members and 12 of 2 – 4 members. About eight beneficiaries have a family size of 1 – 2 members and six of more than eight members.

Age distribution of the IFFI and Zakah sample beneficiaries is shown in table 8.

Table 8

Age distribution of IFFI/Zakah sample beneficiaries

Sl. No.	Age in years	IFFI	Zakah
1.	< 20	3	–
2.	20 – 30	13	10
3.	30 – 40	30	38
4.	40 – 50	33	26
5.	50 – 60	14	10
6.	60 and above	7	16
	Total		100
100			

During the survey, almost two-thirds of both the categories of beneficiaries belonged to the 30 – 50 age groups. About 14 beneficiaries under IFFI and 10 under Zakah belonged to 50 – 60 age groups. More number of the Zakah beneficiaries (16) was above 60 years of age compared to the former (7). Only three IFFI beneficiaries were less than 20 years old, while the rest belonged to 20 – 30 age groups under the two categories.

Table 9 gives details on education levels of the two categories of beneficiaries.

Table 9

Education status of IFFI/Zakah sample beneficiaries

Sl. No.	Details	IFFI	Zakah
1.	Illiterates	–	14
2.	Primary	20	32
3.	Middle School	33	34
4.	Seconary	13	20
5.	Higher Secondary	7	–
6.	Graduates	27	–
	Total	100	100

Among Zakah beneficiaries, 14 were illiterates. More than half the IFFI and two-third Zakah beneficiaries had primary (20 and 32) and secondary (32 and 34) school level education respectively. About 13 and 20 sample beneficiaries respectively had secondary school education. Only seven and 27 IFFI beneficiaries had higher secondary and under-graduate educations. Thus education-wise, IFFI beneficiaries are observed to be much better than the Zakah beneficiaries.

Table 10 presents the occupational structure of the two categories of beneficiaries.

Table 10

Occupational status of IFFI/Zakah sample beneficiaries

Sl. No.	Employment	IFFI	Zakah
1.	Skilled workers	24	22
2.	Medium trade	30	12
3.	Small enterprise	33	16
4.	Fish vendor	3	4
5.	Coolie (labourer)	–	10
6.	Domestic help	–	6
7.	Unemployed	–	30
	Total	100	100

It reveals 30 Zakah beneficiaries to be unemployed and only 22 to be skilled workers. More than a quarter are engaged in medium (12) and small (16) enterprises, while 10 work as coolie labourers. About six (females) work as domestic help and four as fish vendors.

As regards the IFFI beneficiaries, majority are self-employed, owning small enterprises (33) or medium trade (30). Almost a quarter is skilled workers and only three fish vendors. Thus, the IFFI borrowers are better employed than the Zakah beneficiaries.

Table 11 records the purposes for which funding assistance have been obtained by the IFFI and Zakah beneficiaries.

Table 11

Distribution of IFFI/Zakah sample beneficiaries by purpose of funding assistance

Sl. No.	Purpose	IFFI	Zakah
1.	Consumption	4	–
2.	Pension	–	1
3.	Self employment	63	33
4.	Education	7	1
5.	Medical expenses	7	14
6.	Debt repayment	19	14
7.	House/repair	–	37
	Total	100	100

Among the IFFI borrowers, a majority of 63 had sought funding assistance for self employment. About 19 had received it for debt repayment, and seven each for education and medical expenses. Only four had taken funds for consumption purposes.

Among the Zakah beneficiaries, 37 received financial assistance for housing/repair, while one-third sought it for self-employment. About 14 each sought assistance for medical expenses and loan repayment. One each received the assistance for education and as pension. Thus, while majority of the IFFI beneficiaries sought financial assistance for investment, the latter mainly did so for satisfying their basic needs.

Table 12 illustrates the funding-related problems experienced by the two categories of beneficiaries.

Table 12

Funding-related problems of IFFI/Zakah sample beneficiaries

Sl. No.	Problems	IFFI	Zakah
1.	Insistence of security	33	–
2.	Long processing delay	7	36
3.	Insistence of early repayment	–	–
4.	Officials' availability problem	–	14
5.	Corrupt officials	–	–
6.	Inadequate identification of target beneficiaries	–	50

Of the total beneficiaries, 33 under institutions reported insistence of security by IFFI as the main problem. Seven IFFI and 36 Zakah beneficiaries quoted the long processing delays as a problem. In the case of Zakah, inadequate identification of target beneficiaries by the committee was quoted as a problem by half the respondents (50). About 14 of them also quoted non-availability of regular officials as a problem. The latter is due to non-appointment of a full time employee for the purpose by Zakah committees. Currently, the committee members themselves handle this activity, hence find it difficult to manage it alongwith their regular responsibilities.

Table 13 presents annual income of IFFI/Zakah beneficiaries before/after the financial assistance.

Table 13

Annual income of IFFI/Zakah beneficiaries before/after assistance

Annual Income in '000 Rs.	IFFI			Zakah		
	Before	After	Difference	Before	After	Difference
Less than 20	10	-	-10	18	9	-9
20 - 30	7	9	2	32	21	-11
30 - 40	17	10	-7	23	32	9
40 – 50	27	31	4	10	14	4
50 - 60	17	20	3	17	20	3
60 - 70	22	24	2	-	4	4
> 70	-	6	6	-	-	-
Total	100	100		100	100	

The table shows the Zakah beneficiaries to be relatively economically worse off than their IFFI counterpart. After receiving the financial assistance, substantial improvement in the annual household income has been reported by the two categories of the sample respondents. The economic status of IFFI beneficiaries improved more than that of the Zakah beneficiaries, as majority of the former had sought financial assistance for investment in employment activities, compared to the latter whose requirements were more necessity-based.

More IFFI beneficiaries moved on to higher income ranges compared to their Zakah counterpart. About six of the former earned more than Rs. 70,000 per annum, while four of the Zakah beneficiaries moved into the higher income range Rs. 60,000 - 70,000. Thus, as upward movement in income of the two groups has been observed, with the number of those in the lower income range declining after the financial assistance. In sum, both systems of inclusive finance have contributed to improved economic status of the sample households.

Section – IV: Concluding remarks

The conventional financial system in India does not lead to inclusive economic growth, as the collateral-linked system of loans exclude the poor from financial market. The interest-based loans also affect the beneficiaries of micro-finance schemes and poor farmers to a large extent, in turn affecting the efficacies of these schemes. To the poor, the government financial schemes are only a little better than the money-lenders, with the persistence of the burden of interest repayment and collateral still looming large. The relevance of Islamic economic system becomes evident here, which makes interest-free funds available for profitable investment on the one hand and encourages a pattern of growth largely based upon expansion of self-employment opportunities.

Islamic finance follows a system that aims at alleviating poverty and economic inequalities, by complying with the principles of shariah. The present study examined the performance of interest-free financial institutions and Zakah committees in Kerala, India; and assessed its role in achieving inclusive growth among its beneficiaries in the state. It is based on both secondary and primary data collected from 25 IFFI and Zakah committees each located in five prominent districts of Kozhikode, Malapuram, Kottayam, Eranakulam and Trivandrum in Kerala, India, and random samples of their 100 beneficiaries each, interviewed during May- July 2011.

The findings revealed that although both IFFI and Zakah are aimed at reducing poverty and income inequality through interest-free financial assistance, they have distinct methods of raising their funds. Being a charity unit, fund size of Zakah is lower compared to that of the IFFI, which relies upon various fund generation methods. The former's low fund mobilization in relation to its huge potential is largely due to lack of awareness among the masses about the original Zakah system, misguidance by orthodox religious scholars who have vested interests, lack of workers and dedicated volunteers to undertake Zakah related works, and dominance of the prevailing system of person-to-person payment.

Zakah units provide non-refundable financial assistance, with no collaterals attached, thus succeeding in achieving a deeper out-reach to the poorest and needy. Meanwhile, all IFFI demand different types of collaterals, to ensure repayment within varied periods in a year, so as to further distribute it among more potential individuals. In the process, the two interest-free systems ensure financial inclusion of a larger number of the poorest and needy in the society.

The beneficiaries' background showed that they were largely dominated by males, due to the conventional male dominance in decision-making in Indian society. Socially and economically, the Zakah beneficiaries were much poorer compared to their IFFI counterpart, and largely sought funds to meet their basic necessities of life. On the other hand, the latter were more educated, better employed and sought financial assistance mainly for self-employment investment. The major problems in obtaining funds quoted by the beneficiaries under IFFI system were the insistence of security and processing delays, whereas under Zakah system it was inadequate identification of target beneficiaries, long processing delays and non-availability of regular officials. The latter is attributable to the fact that organized Zakah in Kerala at present is managed under the supervision of Mahal/Zakah committees, and has no regular full-time members to handle the dissemination of funds by identifying the right target beneficiary. This is a problem that warrants immediate attention for greater effectiveness of the Zakah.

A comparison of annual income of the two categories of beneficiaries revealed that both the funding systems contributed to improved living standards of the respective respondent households. About one-third of the Zakah and almost two-third of the IFFI funds were spent by its respective beneficiaries on schemes directly meant for self-employment. The benefits of the Zakah revenues as well as of interest-free funds were availed entirely by the poorer sections (i.e., households with annual income of less than Rs. 70,000) for house construction/repair and educational purposes, which directly contribute to improved quality of life or human resources development. Thus, the two funding systems not only lead to financial inclusion of the poorest, but also contribute to their sustainable development.

A study carried out about Zakah system in Kerala (Ramzan, 2001) has shown that these committees have been able to mobilize only 10 per cent of the Zakah potential in the state. The potential Zakah revenue of Kerala is estimated to be Rs. 379 crores, which constitutes about 1.2 per cent of the state's domestic product. If its entire potential could be mobilized, 90 per cent of the Muslim population or alternatively 19 per cent of the total population of Kerala could be lifted above the poverty line. Further, in recent years, there has been increasing demand in Kerala for setting up interest-free banks in the organized sector and to revamp the traditionally dominant individual-based Zakah payment system in an organized manner through the management of committees. Even orthodox religious organizations which were traditionally opposed to the organized system of Zakah in the context of Kerala, are now eschewing their opposition to it. In sum, in the days to come Islamic economic measures are likely to play a more significant role in Kerala's efforts to achieve inclusive and sustainable growth and development.

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