

A PROPOSED INTRODUCTION OF ISLAMIC BANKS IN INDIA

Omar Khan

India, over millennia, has been home to peoples of many different cultures, faiths, linguistic heritages, castes, socioeconomic backgrounds, etc. Successful rulers of the past have bridged all of those gaps by acknowledging the existence of differences among the people and creatively accommodating those differences. Since the partition of Britain's South Asian colonies into Pakistan and India in 1947, it's become ever more important for India to stick to its secular, democratic ideals and continue to bridge the gaps that exist within its citizenry through creative accommodations of difference. For over a century now, however, the Muslim minority in India has been suffering at the hands of its leaders' miscalculations and mistakes, exploitation by majoritarians, and the relative apathy of several Indian governments. The current status of Indian Muslims is alarmingly poor with higher illiteracy, higher unemployment, lower income and higher poverty rates than the Hindu majority. This should be of major concern to the Indian government and the people of India at large. As a secular democracy, all citizens have equal right to a certain quality of life and no particular sub-group of the population should be lagging behind in attaining and exercising that right. It is the obligation of the government to ensure that lagging minorities have the tools with which they can catch-up to the rest of the nation. One such tool is credit, and only with proper credit can lagging minorities catch-up and decrease the economic disparity between them and the majority. The establishment of full-fledged banks practicing Islamic Finance is one step towards decreasing the economic disparity between Indian Muslims and the rest of their countrymen. The government of India should bridge the gap between Indian Muslims and the rest of the nation with a creative accommodation of difference; it should reform its banking sector so as to allow the establishment of Islamic Banks.

Today, the condition of the Indian Muslim minority is poor; encouraging and supporting Indian Muslim entrepreneurship is of paramount importance if the condition of this minority group is to be improved. At 12% of the population (2000), Indian Muslims are a very significant minority. This significant minority, however, is lagging behind the rest of the nation in key socioeconomic dimensions (land ownership, income, poverty, literacy, etc.). A recent survey by the National Sample Survey Organization¹ found that a higher proportion among Indian Muslims were consuming 300 rupees (\$6), or less, per month (the bottom 20% of consumers) than the proportion among Hindus. In rural areas, 29% of Muslims were in this bottom-fifth consumption bracket while only 26% of Hindus were in this consumption bracket. The contrast is greater in urban areas where 40% of Muslims were found to be consuming in the bottom-fifth bracket, compared to 22% of Hindus. Assuming that consumption reflects income, the trend is clear: Indian Muslims are earning less than Hindus in both rural and urban settings. This conclusion is strengthened by two further pieces of data; In rural areas, 51% of Muslims belong to the class with "little or no ownership of land" versus 40% of Hindus and in urban areas, 43% of Hindus have at least one family member with a regular/salaried job, compared to only 27% of Muslims. The survey also found unemployment and illiteracy to be

higher among Muslims than among Hindus, both in rural and urban settings. The picture painted by the National Sample Survey Organization survey is indeed a bleak one, and the government should make it a priority to ensure that the lagging Muslim minority has the tools it needs to better its condition. The United States, in 1971, responded to a similar situation with its minority population (consisting mainly of Blacks, Hispanics and Native Americans at the time) by establishing the Minority Business Development Agency (MBDA).² The main purpose of the MBDA was to give minorities in the US the tools they needed to improve their condition; the goal was to develop business ownership among minorities. The rationale behind encouraging minority business ownership included the fact that minority businesses have a proven record of filling a high proportion of their jobs with minority employees. Thus, unemployment and underemployment among minority populations can be reduced by supporting minority entrepreneurs in developing businesses. This will lead to not only an increase in the economic standing of the minority population as a whole, but a sharing of that increase across a significant portion of that population. The benefits of owning successful businesses are not limited to the economic sphere, the benefits also include social prestige and political leverage —both of which tend to have positive externalities for the rest of the minority population (and in effect, the whole society). One major obstacle facing minority entrepreneurs, however, is an inability to obtain loans (lack of credit). In one of its reports³, the National Commission on Minorities observed that minorities, and Muslims specifically, “face problems in getting... bank credit.” The Commission studied credit flow to minorities in the city of Saharanpur (U.P.) and found that “in the year 1990-91, credit flow to minorities, in the city of Saharanpur was... 13 percent of total against a Muslim share of 31 percent in total population.” By compiling data supplied by the Reserve Bank of India³, the Commission was able to ascertain that Muslims in India have only 9% of the total bank accounts, though they make up 12% of the population. And more alarmingly, only 5% of the loans advanced have gone to Muslims. Two striking possibilities are that either the banks discriminate against Muslim borrowers or that Muslims don't seek credit (possibly due to religious abstention from interest). In either case, reform of the banking establishment in India is possible and could very well lead to Muslim entrepreneurs having better access to the credit they need. Supporting Muslim entrepreneurship by reforming the banking sector is vital in bettering the condition of India's largest minority.

The Islamically-based system of finance has proven itself to be entirely feasible and sound. At present, there are over 200 Islamic Financial Institutions (IFI) operating around the world in different social and economic environments.⁴ Moderate estimates indicate that there were about \$160 billion worth of transactions by IFI's in 1997 with an annual increase of 10-15 percent.⁵ The main reason for the 20th century re-development and growth of the Islamic banking system is the conventional banking system's heavy reliance on interest-based financing. Islam prohibits doing business with “riba”, or usury/interest. The main challenge of an Islamic Bank is somehow providing financing to consumers and borrowers without charging interest. Intellectuals and practitioners have met this challenge with a heavy reliance on equity-based finance, or profit-sharing. Many other interest-free financial instruments have been developed and are being used by different IFI's in different parts of the world, but equity-based finance is perhaps the most significant instrument when considering the development of Muslim entrepreneurs in India. The beauty of equity-based finance is the emphasis on the expected profitability of business ventures. This emphasis ensures that entrepreneurs from all social classes, regardless of their asset-base, can successfully obtain credit. Mohammad Nejatullah Siddiqi wrote⁶:

“Interest-based loans go to those who are the most credit-worthy. They do not necessarily go to finance projects expected to be most productive (profitable)...A project of dubious prospects may pass if it comes from a party which has assets out of which the bank may recover the principal with interest. A most promising project may fail to receive finance if it comes from one who does not have other assets. Credit worthiness and not the expected profitability of the project to be financed allocate investible funds in the present system. This is inefficient.”

With a heavy emphasis on equity and profit-sharing, the chief factor used to determine whether a project is worth financing in the Islamic system is the expected profitability of the project. With an emphasis on this factor, the expected profit from all ventures financed by the bank is maximized and society as a whole benefits. With an emphasis on the assets of a borrower (credit-worthiness), expected profits from all ventures financed in the conventional system are not nearly as high and society sustains a certain missed-opportunity cost, even as banks are repaid their principal plus interest. Entrepreneurs lacking assets are unable to obtain credit and launch an enterprise in the conventional system, again, due to the emphasis on asset-based credit-worthiness. This is where the principle of social justice can be seen in the Islamic system: any entrepreneur with a profitable proposal, regardless of asset-base, is eligible for credit and is then able to establish a successful business enterprise and better his position. The success of that business enterprise is shared between the entrepreneur and the financiers (the bank and those depositors who hold Profit-Loss-Sharing accounts). Thus, a greater portion of society benefits from the success of small business startups and virtually all entrepreneurs, regardless of socioeconomic background, are able to launch their own ventures. If the business were to fail, the loss is shared with the bank, and the entrepreneur, who took an acceptable risk in implementing his proposal, will not drown helplessly in debt due to unforeseeable circumstances. The sharing of risks, the sharing of profits and the sharing of losses lead to a more equitable outcome for all of society and this is what the structure of the Islamic banking system promotes. One might be concerned about moral hazard and the possibility of fraudulent understatement of profits. There are a few reasons to rest assured that fraud will not be any more rampant in an Islamic system than in the conventional system. The first is that banks, when considering the expected profitability of a venture, will surely consider the history of the entrepreneur. An entrepreneur with a history of losses and low-profits will be less likely to have his venture financed than one with a history of high-profits. In addition, standardized audit and accounting procedures can help increase transparency between the entrepreneur's enterprise(s) and the bank, which will decrease the chances of fraud. And lastly, the success of IFI's in the Gulf region and Southeast Asia serve as evidence that moral hazard issues can be contained and dealt with, and that the system itself is sound. The emphasis on equity-based finance and social justice set the Islamic system apart from the conventional banking system and helped propel its phenomenal growth. All over the world, in vastly different economic and social contexts, the Islamic financial system has proven itself to be entirely functional and stable.

Certain Islamic financial solutions exist in India today, but are nowhere near the standard of the global Islamic finance industry. Strictly speaking, there are no Islamic Banks in India. There are, however, various types of Islamic Financial Organizations (IFO) that carry out financial transactions on an interest-free basis. One estimate⁷ of the size of the informal interest-free financial sector places the number of non-

profit IFO's at slightly over 300, with total demand deposits of at least Rs. 800 million. These organizations, some dating back to pre-partition days, come in a variety of forms. There are Financial Associations of Persons which are not registered under any provision of law, Interest-free Funds or Islamic Welfare Societies registered either under the Societies Act or the Trust Act, Islamic Cooperative Credit Societies registered with the registrar of cooperative societies, and Islamic investment companies registered under the Companies Act. Financial Associations of Persons (ex: Barkat Association) have been successful in helping minority businessmen establish themselves. They have been, however, due to legal restrictions and lack of an adequate capital base, limited in scope and effectiveness. Interest-free Funds/Islamic Welfare Societies, due to their lack of professional management, among other failings, have enjoyed extremely limited success (having saved a small portion of the indebted/impoverished class of Muslims from exploitative interest rates). Islamic Cooperative Credit Societies (ex: Patni Cooperative Credit Society) have had, perhaps, the most potential to be successful under the current legal framework. Members join a society and contribute shares and membership fees. These societies extend interest-free loans and invest their share capital in equities of different sorts. The main problem facing such societies is their scope. As noncommercial entities, they limit themselves to benefiting their own members and tend to be more philanthropic in nature. Also, the laws applying to Cooperative Credit Societies vary from state to state; no multi-state Islamic Cooperative Credit Society has been established to date. Islamic investment companies are the answer to Indian commercial banks' limitations; as Indian commercial banks aren't able to accept equity finance or invest on a profit/loss-sharing basis, it has been up to the Islamic investment companies to do so. Islamic investment companies in India have been plagued with problems, however. Dishonesty, a lack of professionalism and inefficiency among management have been critical to the failure of many Islamic investment companies. The strict norms imposed by the Reserve Bank of India since 1998, a lack of support from the Muslim community (largely due to an absence of transparency), and the crash in the real-estate market (which many Islamic investment companies had not diversified against) have caused the closure of many of the Islamic investment companies that were in business only 10 years ago. The future of India's IFO's is in jeopardy due to increased regulation by the Reserve Bank of India under the Non-Banking Financial Companies Act of 1998. Complying with this regulatory framework poses a significant challenge for such small organizations and increases operational expenses, which are barely being met as is. Aside from the aforementioned IFO's, there are a small number of products aimed at Indian-Muslim investors worth mentioning. The first is the Parsoli-IBF Equity Index⁸, launched in 2001, after the success of the Dow Jones Islamic Index. The Parsoli-IBF Equity Index is a stock index of companies on the National Stock Exchange that conform to certain Islamic principles. One such principle is that the primary business of these corporations cannot involve alcohol, tobacco, pornography, music, cinema, pork, casinos, etc. Another is that their debt/asset ratio be less than 33 percent and their non-operating interest income has to be less than 5 percent (the fraction of money earned by interest is deducted from dividends and donated to charity). The second such product is the "Tata Core Sector Equity Fund", launched by Tata Mutual Funds in 1995-96. The "Tata Core Sector Equity Fund" was tailored to suit the preferences of Muslims and other ethical investors (with no investment in "prohibited sectors"). It is now known as the "Tata Select Equity Fund," and even on the Tata Mutual Fund homepage, there is no indication that it is designed for Islamically-conscious investors (aside from a note about the policy of non-investment in "prohibited sectors"). Since its inception this fund has performed well, yielding an average annual return of 17.04%, which is significantly higher than the Sensex and Nifty indices.⁹ As can be seen by the recent introduction

of Islamically-oriented investment products, the long history of native-Indian Islamic financial solutions, and an Indian-Muslim population of 120 million, there is a huge potential for full-fledged Islamic Banks in India. A recent survey¹⁰ observed that 80% of Muslims in urban India are willing to deposit or invest in Islamic Financial Institutions (IFI's) on a Profit/Loss-Sharing (PLS) basis. 67% of Muslims in urban India are willing to borrow from IFI's on a PLS basis. However, only 13% of Muslims in urban India currently have an account with an existing Islamic Finance Organization, with 57.5% totally unaware of their existence. Islamic finance, as it exists in India today is not capable of properly serving that market; only with reform and an appropriate marketing push from existing Islamic Finance Organizations in India, foreign Islamic Banks and the government, can the strength of Islamic finance in India be increased.

There are many benefits to the development of full-fledged Islamic Banks in India. Those benefits include a potential bettering of the condition of India's largest minority, better integration of that minority into secular-democratic India, increased savings across the country and an increase in the national GDP growth rate. Given the limited access that Indian Muslim entrepreneurs have to credit, some reform of the banking sector is necessary. Reform by opening to Islamic Banks would be beneficial for all entrepreneurs who have profitable proposals but lack collateral. Those entrepreneurs include, but aren't limited to, many economically-disadvantaged Indian Muslims. By helping economically-disadvantaged Indian Muslims build minority businesses, the newly-created Islamic Banks will be helping to generate wealth for Muslim business owners, create jobs for currently underemployed Muslim workers and will share the profits generated by those minority businesses among all of the depositors who hold Profit/Loss-Sharing (PLS) investment accounts. New wealth, wasted/neglected by the current system, will have been generated and shared among a currently-disadvantaged segment of Indian society. Islamic Banks will be providing the Muslim minority with the tools they need to catch up to the rest of the nation. The increased wealth in the Muslim community will surely translate into greater involvement in Indian politics and greater political leverage for a historically-marginalized minority. Increased political involvement, decreased inequality, business ownership, and wealth will all serve to foster a greater sense of Indian-integration among Muslims. That greater political leverage and integration will likely lead to a decrease in communal violence, as will the increase in small business ownership among Muslims (*Ashutosh Varshney's investigation of the effects of cross-communal Business organizations on communal violence comes to mind). The better integration of Indian Muslims and decrease in communal violence will directly benefit all Indians. The creation of Muslim-owned businesses, the decrease in Muslim underemployment/unemployment (increase in employment in the formal sector), and the creation of interest-free savings avenues will directly benefit Indian Muslims and indirectly benefit all Indians. All Indians will benefit from the increase in Gross National Product, the decrease in welfare expenditure, an increase in tax revenues (small businesses in the formal sector pay more taxes than the informal sector), the creation of new savings, and the mobilization of savings that had hitherto been kept away from conventional banks for religious reasons (abstention from interest-based transactions). The increased public and private savings will combine to increase the overall national savings rate (without any significant government intervention -all as a result of the free market), thereby helping maximize India's growth potential (which is phenomenal, according to a 2001 study by McKinsey¹¹). Increased growth would also be the outcome of the efficient investment allocation provided by Islamic Banks (emphasizing project profitability rather than borrower's credit-worthiness/asset-base). The success of Islamic Banks in the rest of the world and the continued existence of Islamic Finance Organizations in

the dry legal climate of India are hopeful indicators of the potential success of full-fledged Islamic Banks in India. Improving the condition of India's Muslim minority, better integration of that minority into secular-democratic India, increased savings and faster economic growth are all potential positive consequences of allowing Islamic Banks to operate in India. The benefits to India of opening itself to full-fledged Islamic Banks are significant and numerous enough that the opportunity cannot be easily neglected; India's banking sector should be reformed so as to allow and encourage Islamic Banks to enter the marketplace.

The costs of establishing Islamic Banks in India include legal reform and the development of a new regulatory structure for interest-free banks. With regard to the current legal environment in India, Ausaf Ahmad wrote¹²:

“Indian Banks are regulated by the Indian Banking Regulation Act (1949), The Reserve Bank of India Act (1935), The Negotiable Instruments Act and the Cooperative Societies Act (1866). None of these laws admit the possibility of an interest free bank. Hence, if and when an interest free bank is allowed to be established in India, relevant laws will have to be amended significantly to admit such a possibility and to evolve a different system of regulation and control.”

In order to allow the establishment of Islamic Banks operating without interest, all of the relevant banking laws will have to be amended. One way of amending the laws would be to maintain the current legislation with regard to conventional banks but to specifically amend the legislation so as to make the laws inapplicable to interest-free banks. Amendments will have to expressly allow some regulatory authority the ability to deem a bank capable of interest-free operations. Once that authority has deemed a bank capable of interest-free operations, current legislation will no longer apply and a new set of laws will apply. Those new laws will govern their activities and subject them to some regulatory body. That newly-created regulatory body would assist in establishing and enforcing auditing and accounting standards, ensuring transparency in the dealings of interest-free banks and ensuring compliance with liquidity standards. The regulatory body, in conjunction with industry experts, could also look into some form of deposit insurance for account-holders and some form of a rating agency to judge the efficiency and managerial competency of the newly-developing interest-free banks –helping to ensure the stability of the parallel interest-free banking network being set up. Other specific policies that will need to be changed include the requirement that non-banking financial companies (NBFC) invest at least 15 percent of their total investment in interest-based government securities. Aside from dropping such a requirement altogether, one easy alternative is to allow NBFC's to invest in the equity of some public-sector enterprise. Taxation policy will also require amendment. One specific instance of a tax policy that will need to be changed is the current heavy taxation of returns on equity investment (as opposed to the exemption of interest earnings). Such an uneven approach to taxation would surely put interest-free banks, which thrive on equity and are prohibited from working with interest, at an unfair disadvantage. This legal reform and the development of new, parallel regulatory authorities is no easy task. There are, however, experts from many different fields who can coordinate their efforts and help to ensure that the reforms are efficient and effective in realizing the intention of the government. Indian legal experts, legal experts who have worked to regulate Islamic banks in parts of the world where interest-free banking has been set up parallel to the conventional system, industry representatives, academics and outside consultants who have assisted with the implementation of similar reforms elsewhere can all be called upon to assist the government in this effort. The costs of establishing

Islamic Banks in India include legal reform and the development of a new, parallel regulatory structure for interest-free Banks; those costs, as far from negligible as they may be, are nowhere near as great as the potential benefits of establishing Islamic Banks in India.

There may be some who, even upon considering the myriad benefits of Islamic banking in India may still be skeptical. Their skepticism may be grounded in doubts about the efficiency of Islamic Banks, doubts about the appeal of Islamic Banks to Muslim entrepreneurs, or a disbelief of the potential for far-reaching change. Their skepticism, however, is misplaced. In a study of the efficiency of Islamic Banks¹³, Donsyah Yudistira wrote:

“...the overall efficiency results suggest that inefficiency across 18 Islamic banks are small at just over 10 percent, which is considerable compared to many conventional counterparts... Islamic banks within the Middle East region are less efficient than their counterparts outside the region... The reason is that Islamic banks from outside the Middle East region are relatively new and very much supported by their regulators. (Infant industries that are particularly supported by the governments generally grow at maximum speed.)”

So the inefficiency of Islamic Banks, according to this study, is greater than more fully developed conventional banks, but still relatively small. We know that this level of inefficiency is not worthy of concern, because despite this structural inefficiency, full-fledged Islamic Banks are healthy, all over the world. With regard to the existing structural inefficiency of Islamic Banks, one thing to keep in mind is that the conventional banking system has had hundreds of years of evolution and development. In those hundreds of years, it has whittled down its own inefficiencies. Given time, we will surely see the same processes and development in the Islamic banking industry. And in addition, as Yudistira's study suggests, the inefficiencies that do exist can be mitigated by the support of the Indian government and the regulators it assigns to the “infant” domestic Islamic banking industry. In response to doubts about the appeal of Islamic Banks to disadvantaged Muslim entrepreneurs there are two items worth mentioning. The first is that these disadvantaged Muslim entrepreneurs are facing limited access to credit due to the condition of the current banking system (corruption, discrimination, emphasis on credit-worthiness/asset-base, use of interest, etc.). As such, they will really have little alternative to the interest-free Islamic Banks being created and there will be a certain “forced appeal” to those banks. Secondly, in his book Entrepreneurship and Indian Muslims, Dr. M. Akbar¹⁴ indicates the results of a study he conducted:

“...most surprising was the positive association between the degree of religious observance and level of entrepreneurship. Higher orders of entrepreneurs displayed higher degree of religious observance, as they wanted to establish in their society that they were not only better entrepreneurs but were better Muslims as well.”

This positive correlation between religiosity and entrepreneurship reflects well on the natural appeal of Islamic Banks to disadvantaged Muslim entrepreneurs. Apparently, the more entrepreneurial the individual, the more religious they will be. By extension, the more entrepreneurial the individual, the more likely they will be to utilize the shariah-compliant services of Islamic Banks. The evidence, as presented by Dr. M. Akbar, strongly supports the claim that Islamic Banks will appeal to Indian Muslim entrepreneurs. The criticism that the potential for far-reaching change is not as solid as it may appear has its merits. One has

to acknowledge that it is entirely possible that the estimated far-reaching effects will not be realized (for one of dozens of possible reasons). The thing to keep in mind, however, is that even if those benefits aren't fully realized, the only cost is a waste of time and some ineffectual banking reform. No matter what happens, on a micro level there will be some benefit to some entrepreneurs/individuals, even if all of the macro benefits aren't fully realized. The situation of Indian Muslims today is so poor that we truly owe it not only to our forefathers and our current generation to make things better, we also owe it to future generations of Indians. Better integration of Indian Muslims by socioeconomic betterment is important enough for the nation as a whole that it's worth the risk of potentially ineffective legal reform. Despite the costs and the possibility of a limited reaping of the potential benefits of Islamic banking, the expected value of such reforms is quite high. The Indian people and the Indian government owe it to themselves and all other Indians to attempt to solve the problem of inadequate integration of the Muslim minority. Skepticism grounded in doubts about the efficiency of Islamic Banks, doubts about the appeal of Islamic Banks to Muslim entrepreneurs, or a disbelief of the potential for far-reaching change, is misplaced. The Indian people and the Indian government owe it to themselves to attempt to reap the full benefits of Islamic banking in India.

The major parties involved with a pro-Islamic banking reform of the Indian banking sector are the currently existing Islamic Finance Organizations (IFO) in India, foreign Islamic Banks and the Indian government; each of these parties should take certain concrete steps towards the implementation of such reform. Indian IFO's should come to terms with what Donsyah Yudistira wrote: "...there are diseconomies of scale for small to medium Islamic banks which suggest that mergers and acquisitions should be encouraged..." Realizing that their operations are not nearly as efficient or productive as the operations of larger Islamic banking entities, the IFO's should brace for mergers and acquisitions and in the meantime should focus their attention on collaborating with one another and foreign banks in creating an atmosphere for Islamic Banks to thrive in India. They can assist in creating that atmosphere by assisting the government in reforming its banking laws and creating a new regulatory body for Islamic Banks, and by promoting an understanding of interest-free banking among the general population. Foreign Islamic banks can share their interest in servicing the Indian market with the government, can plan for an efficient and effective move into the marketplace, and can look at the possibility of expanding the scope of their operations in India by acquiring local IFO's, many of whom may service areas that would otherwise be impractical to service. At the same time, they can use their working capital to back an Islamic banking marketing push, generating interest among consumers in their financial services and products. Foreign banks can also assist the Indian authorities in implementing their reform and devising their system of regulation by providing expert advice and encouraging their native governments and native regulatory authorities to assist as well. The Indian government, remembering the Gopal Singh Panel report, should renew its commitment to giving the Indian Muslim minority the tools it needs to help itself. It should announce its intention to support the development of Muslim businesses in order to facilitate a better integration of Muslims into secular-democratic India and its openness to the interest-free banking system. The government should consider its options: opening India to foreign Islamic Banks, encouraging the development of local Islamic Banks, or the introduction of Islamic Windows at nationalized banks. In dealing with the options available and determining how best to enact reform, the government would be wise to seek assistance from academics, IFO's, foreign banks and regulators, legal experts and outside consultants. If IFO's, foreign Islamic Banks and the Indian government

collaborated and took certain concrete steps, all three parties could benefit from the reform of the Indian banking sector and help facilitate the positive changes that would be brought about by Islamic banking in India.

Indira Gandhi's slogan, "garibi hatao" (eliminate poverty) is as poignant and relevant today as it was in the early 70's. Its popularity serves as evidence of the belief among all Indians that those born into lower stations in life, through no fault of their own, deserve a chance to better their own condition –and that it is the responsibility of the government to help them have that chance. Yet even today, horrible disparities exist between different segments of Indian society. Income, unemployment and literacy vary significantly by caste, linguistic identity and religious identity. We should do all that we can to provide disadvantaged minorities with the tools they need to improve their condition. The Indian banking sector has been opened considerably in the past decade or so and openness to interest-free banks is a reasonable next step. Islamic banking is one way to better provide the disadvantaged Muslim minority (among others) with the tools it needs to improve its situation. The potential benefits of allowing Islamic banking include decreased economic disparity between the Muslim minority and the rest of the nation, better integration of that Muslim minority, and increased national economic growth. By creatively accommodating the ideological differences of its Muslim minority, and keeping an open mind about interest-free banking, the India can position itself to reap these potential benefits. The government of India can grow one step closer to actualizing the spirit of "garibi hatao" by reforming its banking sector and allowing the establishment of Islamic Banks.

References:

1. Haque, Md Zeyaul [2002], "The 'appeased' Indian Muslims are Far More Deprived," *The Milli Gazette*, Vol. 3 No. 19, MG65.
2. Shaikh, Abdul Quader J. [1993], "The Feasibility of Applying the US Minority Business Development Model to Stimulate Entrepreneurship among Indian Muslims," in *Aspects of Islamic Economics and the Economy of Indian Muslims*, ed. F.R. Faridi (New Delhi: Institute of Objective Studies), 202.
3. Ahmed, Ausaf [2003], introduction to *Islamic Banking in India: Scopes & Challenges*. Ed. Javed Ahmad Khan (New Delhi: Institute of Objective Studies), 17-18.
4. Iqbal, Munawar and David T. Llewellyn [2003], introduction to *Islamic Banking and Finance*, ed. Munawar Iqbal and David T. Llewellyn (Cheltenham, UK: Edward Elgar Publishing), 1.
5. Iqbal, Munawar and David T. Llewellyn [2002], introduction to *Islamic Banking and Finance*, ed. Munawar Iqbal and David T. Llewellyn (Cheltenham, UK: Edward Elgar Publishing), 2.
6. Siddiqi, M. Nejatullah [2003], "Rationale of Islamic Banking in Indian Perspective," in *Islamic Banking in India: Scopes & Challenges*, ed. Javed Ahmad Khan (New Delhi: Institute of Objective Studies), 61.
7. Khatkhatay, M.H. [2003], "Islamic Banking in Indian Context," in *Islamic Banking in India: Scopes & Challenges*, ed. Javed Ahmad Khan (New Delhi: Institute of Objective Studies), 80.

8. Vardhan, S. [2000], "India launches its first Islamic index," November 15, <<http://www.islamic-finance.net/media/islamiq1.html>> (cited January 5, 2005)
9. <<http://www.myiris.com/mutual/scheme/index.php?icode=TATCREQF>> and <http://www.tatamutualfund.com/products/sel_sec_fund.asp> (cited January 2, 2005)
10. Bagsiraj, M.I. [2002], "Islamic Financial Institutions of India: Their Nature, Problems and Prospects," in *Islamic Banking and Finance*, ed. Munawar Iqbal and David T. Llewellyn (Cheltenham, UK: Edward Elgar Publishing), 188-190.
11. <<http://www.mckinsey.com/knowledge/mgi/india/>> September, 2001. (cited January 8, 2005).
12. Ahmad, Ausaf [2003], introduction to *Islamic Banking in India: Scopes & Challenges*. Ed. Javed Ahmad Khan (New Delhi: Institute of Objective Studies), 21.
13. Donsyah, Yudistira [2003], "Efficiency in Islamic Banking: an Empirical Analysis of 18 Banks." August 20.
14. Akbar, M. [1990], *Entrepreneurship & Indian Muslims* (Delhi: Manak Publications), 180.
15. Varshney, Ashutosh [2003], *Ethnic Violence and Civil Society: Hindus and Muslims in India* (New Haven, Conn.: Yale University Press).