

# **An Introduction of Interest Free Micro Financial Institutions for the Alleviation of Rural Poverty**

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**Abstract.** The Interest free finance sector has developed into a global phenomenon which is highly dynamic and growing rapidly. While the main centers of Interest free finance in the world today are traditionally acknowledged to be the Middle East, Malaysia and the U.K. In addition to the various Muslim countries, Islamic banking and finance is paving its ways in non Muslim countries and has spread over Europe, the United States of America and the Far East. There are near about 50 interest free financial institutions in various non Muslim countries like US, Uk Australia, Switzerland, France etc. In India Reserve bank has legally permitted to start interest free financial institution. The govt.of Kerala state of India, launched interest free, full-fledged Global Islamic Banking.

The wide growth of this shows the hope of a large number of populations around the world. It can be understood from this rapid growth that an alternative step cannot be expected from the modern financial banks and institutions. They continue the policies increase the gap between rich and poor. Instead of benefitting the poor they have been widely exploiting them. The conventional banks and other modern financial institutions are targeting the wealthy class beneficiaries of their financial schemes. They fiercely competing with one other to find out the rich people and make them as a part of their financial plan. Muhammad Yunus, the founder of Grameen Bank of Bangladesh, has observed that “poverty is not created by the poor people. Poverty is created by the institutions we have built around us. We have to go back to the drawing board, redesign those institutions so that they do not discriminate against the poor, as the present ones do. We hear about apartheid. We feel terrible about it. But the apartheid practiced by the financial institutions-we don't hear anything about that. Why should some people be rejected from the financial institutions? Simply because it is taught that these people are not credit-worthy.”

Alleviation of poverty and hunger is a preliminary step of development in every society and nation, particularly in this age when human resource and man power is considered as the major power of a nation. Living standard and level of income of the citizens are important while measuring the development of a country. Many nations are planning a lot of projects and welfare schemes to uplift the poor. Even though the poor remains as poor and their condition of poverty seems to be beyond controlled. 2.60 billion People of the world (40% of

the total world population) are not getting 2 dollar per day.

The interest free micro financial institutions which are based on the principles of justice and equity are focusing on the welfare of the poor people particularly in the rural area. It has a large scope among the upcoming generation of the modern world. People are waiting to the openings of such institutions. All people like growth in their income. **لَقَدْ أَرْسَلْنَا رُسُلَنَا بِالْبَيِّنَاتِ** Assuredly We sent Our apostles with evidences, and **وَأَنزَلْنَا مَعَهُمُ الْكِتَابَ وَالْمِيزَانَ لِيَقُومَ النَّاسُ بِالْقِسْطِ** We sent down With them the book and the balance, that people might observe equity.

Micro financing is the giving of small loans to people who need capital to start a small business and become self-employed to help themselves and build a sustainable future. With microfinance, poor people are given an opportunity to change their lives with capital and sweat equity. The various characteristics of micro financing are that microfinance provides small short-term loans mainly to poor farmers and villagers.

The of growth of unemployment and poverty in the midst of growth of output and income which is in evidence in many countries today is largely due to the failures of concerned governments to give adequate attention to the problems of distribution. In fact, economic science itself is guilty of neglecting distribution side for long. Drawing attention to this neglect by economists Irwing Fisher wrote in 1922 that although the problems of distribution are of great interest and concern to humanity than any other problems, the studies on distribution are few and far between while compared to the other problems. This neglect can be understood from the fact that of about 1500 articles published in internationally reputed journals, economic journal and American review during sixties only about 100 articles were concerning distribution. The sum and substance of what has been mentioned is that modern economics had neglected the problem of distribution till the seventies and this was primarily the reason why the countries were till recently banking on production oriented strategies with the result that the poverty and unemployment brought out unprecedentedly in these economies in spite of significant growth in output and income.

That growth per se will not bring about distributive justice and that there can be a conflict between growth and justice was realized only by the turn of 1970s. Islam from its early days had addressed to the problem of distributive justice. One fundamental teaching of Quran about wealth is that it is not to be concentrated in few hands but to be circulated among the people.

The interest bends the backbone of poor class. The modern financial system has been exploits the poor instead of protecting them. James Robertson a prominent economist opines that the income and properties are flowing from the poor to the rich, from a poor country to a rich country in the form of interest. He says:

The transfer of revenue from poor people to rich people, from poor places to rich places and from poor countries to rich countries is systematic. One cause of the transfer of wealth from poor to rich is the way interest payments and receipts work through the economy. The transfer of money from poorer to richer localities takes place through the automatic working of the national and international banking and financial networks. Third world in 1980 and 1990 illustrate some of the causes and effects of the systematic transfer of wealth from poorer to richer countries. Out of \$1,200 billion owed by the third world to the first world in 1990, only \$400 billion constituted original borrowing. The rest consisted of accrued interest and capital liabilities.

Nejatullah Siddiqui, an expert on Islamic economics, says that “for the faithless humanity swinging between two extremes Islamic system is the greatest boon. It can play a truly integrative role in man’s life. Being God given it should be acceptable to all, especially as it

is not partial between nations, classes and the two sexes.”

The interest free micro financial institutions should be reconsidered in order to implement various types of productive works and entrepreneurial activities to uplift the rural poor and reduce the imbalances within the society. They have to target the lower class and financially backward people of the rural sector. They can make them beneficiaries of its scheme. I will present a paper on a practical way of establishing the interest free micro financial institutions in rural sector and its role in the development of villages and alleviating poverty.