# Synthesis between Islamic and Cooperative Banking: A way for inclusive growth through Microfinance

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## Abstract

Banking is the key machine in the financial engineering which inputs the poor with finance and helps them to stand them on their own feet and thus responsible for the inclusive and overall growth of the country. Cooperative banks are different from the private banks and government banks. The aim of the cooperative bank is to cooperate with the poor people and guide in overall progress, which includes not only economical but also psychological balance. Access of financial services to the poor is indeed important for the success of any economy. But still it is believed that India needs inclusive banking and pro poor banking. It is found that most of the rural part of the India is out of the reach from the bank.

Evaluating the concepts of Islamic banking and cooperative banking, this paper discusses the use of new trends and scope for cooperative banking in the light of Islamic banking to make it more useful and trustworthy to the poorest of the poor to assimilate in the process of financial engineering and inclusive growth. This paper tries to synthesis between these two aspects in the background of Indian microfinance and inclusive banking. This paper is an attempt to introduce an innovative and productive banking system in India which has a spiritual base. The authors are aiming for the evolution of banking system in India having a spirit of inclusive growth, upliftment and empowerment of poor by introducing new ways in the existing cooperative banking structure.

## Keywords

Islamic Banking, Cooperative Banking, Microfinance, Inclusive Growth, Spiritual Banking and Financial engineering.

## Introduction

In this 21st century, India is aiming to become the super power and has many aims and objectives to be fulfilled. India is becoming and moving towards the largest developing economy in the world. Many factors like industrialization, employment generation and urbanization are responsible for the changing picture of the nation. India has cordial relation with almost every other country and is involved in international trade. The impact, movement and changes in the world economy, society, polity and culture affect the Indian society and its governance, directly or indirectly. The impact and magnitude of changes on the world economy, turmoil in the market leads to ups and downs in the Indian market.

The current financial problem in the US and European countries has stimulated to rethink on the banking aspect and structure of the world banking. It also signals to introspect Indian banking with respect to current changes and its impact on the people of India. India is a developing country and every Indian sector is progressing and emerging. At present, Indian financial strategy is well regulated by Reserve Bank of India. Various banks - Public, Private, Rural, and Cooperative banks are working all over India through their numerous branches. The goal of any financial institution is to make the profit, but they have to perform the prominent role in poverty alleviation and sustainable growth of the country.

Although cooperative movement is a very old movement in India, but still, bankruptcy of the most of the cooperative banks in recent years (most recent example Pen Urban Co-operative Bank Maharashtra) due to mismanagement and corruption makes the investors skeptical about these banks. Now the time has come to think over the traditional banking system and to imbibe the new concepts and streams from the world into the Indian cooperative banking and to make cooperative banking innovative, productive, profitable, and trustworthy and partner in the development of the society and inclusive growth. Thinking about Islamic banking[1], it is steadily

[1] Basically, Islamic financial practices are founded on the core belief that money is not an earning asset in and of itself. The economic aspects of the Islamic banking system can be fully understood only in the context of Islamic attitudes toward ethics, wealth distribution, social and economic justice, and the role of the state. Principles encouraging risk sharing, individual‘s rights and duties, property rights, and the sanctity of contracts are all part of the Islamic code underlying the banking system.

moving into an increasing number of conventional financial systems. It is expanding not only in nations with majority Muslim populations, but also in other countries where Muslims are a minority, such as the United Kingdom or Japan. Similarly, countries like India, the Kyrgyz Republic, and Syria have recently granted, or are considering granting, licenses for Islamic banking activities. In fact, there are currently more than 300 Islamic financial institutions spread over 51 countries, plus well over 250 mutual funds that comply with Islamic principles. Over the last decade, this industry has experienced growth rates of 10-15 percent per annum—a trend that is expected to continue.[2]

Actually, banking system is required to develop entrepreneurship, to encourage risk sharing among all socio economic classes, including poor and ensure their active participation in these activities. There is close relationship between Islamic banking and microfinance which would not only provide obvious benefits for poor entrepreneurs who would otherwise be left out of credit markets, but investing in microenterprises would also give investors in Islamic banks an opportunity to diversify and earn solid returns.[3]

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Narrated Anas ibn Malik: A man of the Ansar came to the Prophet (peace be upon him) and begged from him. (#1) He (the Prophet) asked: Have you nothing in your house? He replied: Yes, a piece of cloth, a part of which we wear and a part of which we spread (on the ground), and a wooden bowl from which we drink water. (#2) He said: Bring them to me. He then brought these articles to him and he (the Prophet) took them in his hands and asked: Who will buy these? A man said: I shall buy them for one dirham. He said twice or thrice: Who will offer more than one dirham? A man said: I shall buy them for two dirhams. (#3) He gave these to him and took the two dirhams and, giving them to the Ansari, he said: Buy food with one of them and hand it to your family, and buy an axe and bring it to me. (#4) He then brought it to him. The Apostle of Allah (peace be upon him) fixed a handle on it with his own hands (#5) and said: Go, gather firewood and sell it, and do not let me see you for a fortnight. (#6) The man went away and gathered firewood and sold it. When he had earned ten dirhams, he came to him and bought a garment with some of them and food with the others. (#7) The Apostle of Allah (peace be upon him) then said: This is better for you than that begging should come as a spot on your face on the Day of Judgment. Begging is right only for three people: one who is in grinding poverty, one who is seriously in debt, or one who is responsible for compensation and finds it difficult to pay. *(*Sunan Abu Dawood, Kitab al-*Zakah*, Book 9, Number 1637).

[2] Juan Solé, *Introducing Islamic Banks into Conventional Banking Systems,* 2007 International Monetary Fund

[3] Islamic Financing Systems, Zamir Iqbal, Finance and Development, June 1997; *Towards Islamic Microfinance: A Primer*, an interview with Aamir A. Rehman, formerly of HSBC Amanah, with the Microfinance Gateway (11 Jun 2007)

## Basic Principles of Islamic Finance System

Islamic finance refers to financial services conducted in accordance with Islamic legal principles. As Zmir Iqbal explains in his book An Introduction to Islamic Finance, the basic principles for an Islamic financial system can be summarized as follows:

1) Prohibition of interest (*reba*): Conventional interest on loans or savings, as a fixed return without sharing any risk, is considered unjust and, accordingly, is not allowed.
2) Risk sharing: Because interest is prohibited, suppliers of funds become investors instead of creditors. The provider of financial capital and the entrepreneur share business risks in return for shares of the profit.
3) Money as potential capital: Money is treated as potential capital, which means that it becomes actual capital only when it joins hands with other resources to undertake a productive activity. Islam recognizes the time value of money only when it acts as capital, not when it is potential capital.
4) Prohibition of speculative behavior: An Islamic financial system discourages hoarding and prohibits transactions featuring extreme uncertainties, gambling, and risks.
5) Sanctity of contracts: Islam upholds contractual obligations and the disclosure of information. In sales contracts, the product or service that is bought or sold must be clear to both parties. This feature is intended to reduce the risk of asymmetric information and moral hazard.
6) *Sharia*-approved activities: Muslims cannot profit from activities considered immoral. Only those business activities that do not violate the rules of the *Sharia* qualify for investment. For example, investing in businesses dealing with alcohol, gambling, casinos, pornography, or weapons of mass destruction is not allowed.
7) Short selling is not permissible: Muslims are not allowed to sell what they do not own, therefore short selling is not allowed.

Islamic finance, like the *Sharia* generally, emphasizes the process and structure of human interaction as well as the moral impact on society. It shares a great deal with the fields of ethical investment and corporate social responsibility, both of which are growing in popularity worldwide. People increasingly realize how important it is to be mindful of how their wealth is used and the sources of their returns. More fundamentally, Islam seeks to alleviate poverty and circulate wealth in the economy. One of the faith's ―five pillar is *Zakah*, or almsgiving. Unlike a simple income tax, *Zakah* is calculated based on assets and therefore re-distributes wealth within the community. As Islamic scholars point out, even the rules of *Zakah* promote more active forms of investment and business activity wealth from passive activities is subject to greater *Zakah*. Muslims are taught to have sympathy with the poor and recognize that the poor have rights over them.[4]

Further, *Sharia* is the body of Islamic religious law governing economic, social, political, and cultural aspects of Islamic societies. It frames the value system of Islam, which emphasizes ethical, moral, social, and religious factors to promote equality and fairness for the good of society as a whole. *Sharia* originates from the rules dictated by the *Quran* and its practices, and explanations rendered (more commonly known as *Sunnah*) by the Prophet Muhammad. Further elaboration of the rules is provided by scholars in Islamic jurisprudence within the framework of the *Quran* and the *Sunnah*. The *Sharia* is interpreted by trained scholars, though Islam does not have a formal clergy or ordainment process.

*Reba* is a term that literally meaning an excess and is interpreted as any unjustifiable increase of capital whether in loans or sales. Any positive, fixed, predetermined rate tied to the maturity and the amount of principal (i.e., guaranteed regardless of the performance of the investment) is considered *reba* and is prohibited. The general consensus among Islamic scholars is that *reba* covers not only usury but also the charging of interest as widely practiced. This prohibition is based on arguments of social injustice, equality, and property rights. Islam encourages the earning of profits but forbids the charging of interest because profits, determined *ex post*, symbolize successful entrepreneurship and creation of additional wealth whereas interest, determined *ex ante*, is a cost that is accrued irrespective of the outcome of the business operations and may not create wealth if there are business losses. Social injustice demands that

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[4] Aamir A. Rehman, 2007 and his book *Gulf Capital and Islamic Finance: The Rise of the New Global Players* (McGraw-Hill, 2010)

borrowers and lenders share rewards as well as losses in an equitable fashion and that the process of wealth accumulation and distribution in the economy be fair and representative of true productivity.

## The Concept and principles of Microfinance

Microfinance is reaching of the financial activity towards the smallest part of the society and to include it in the process of financial engineering by providing not only loans but to assist for entrepreneurship, investment, savings, insurance, and money transfer services. Microfinance is a powerful tool to fight poverty. Poor households use financial services to raise income, build their assets, and cushion themselves against external shocks. It means to construct the financial systems that serve the poor and will try to empower them. It will reach its full potential only if it is integrated into a country's mainstream financial system. Microfinance is not funded system, whereas it has to pay for itself, and has to work very hard so as to reach very large numbers of poor people. Microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from governments and donors.

Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services. Microcredit is not always the answer. Other kinds of support may work better for people who are so destitute that they are without income or means of repayment. Interest rate on credit is the keyfactor of any financial institution; it is nothing but the profit source of these institutions. The higher interest of traditional banks hurt poor people by making it harder for them to get credit. There are some incidences that Non Banking Financial Companies (NBFCs) are charging double interest rate like private money lender under the garb of microfinance. The real microfinance institutions have placed upper limit on charging higher interest rate. Such interest rate ceilings prevent microfinance institutions from covering their costs, and thereby choke off the supply of credit for poor people. The job of government is to enable financial services and to propose the financial policy and executive rules but it usually fails to perform well. Microfinance works best when it measures and discloses its performance. Micro finance institutions need to produce accurate and comparable reporting on financial performance and social performance (e.g., number and poverty level of clients being served).[5]

## Comparison between Microfinance and Islamic Finance

Microfinance and Islamic finance have much in common. Islam emphasizes ethical, moral, social, and religious factors to promote equality and fairness for the good of society as a whole. Principles encouraging risk sharing, individual rights and duties, property rights, and the sanctity of contracts are all part of the Islamic code underlying the financial system. In this light, many elements of microfinance are consistent with the broader goals of Islamic finance. Both advocate entrepreneurship and risk sharing and believe that the poor should take part in such activities. Both focus on developmental and social goals. Both advocate financial inclusion, entrepreneurship and risk-sharing through partnership finance. Both involve participation by the poor.[6]

There are some points of difference, discomfort and discontentment as the conventional system of microfinance is less effective for the poorest of the poor. The major part of the rural poor is unlikely touched by such banks, and are deprived from effective financial services. They are considered as non bankable by the financial institutions, even when the bank is exclusively for poor people. No doubt, rural people desperately need some sort of adequate assistance for their banking services. An Islamic microfinance system, on the other hand, identifies being the poorest of the poor as the primary criterion of eligibility for receiving *zakah*. It is geared towards eliminating abject poverty through its institutions based on *zakah* and *sadaqah*.[7]

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[5] Brigit Helms, *Access to All: Building Inclusive Financial Systems*, Consultative Group to Assist the Poor, World Bank, 2006, P XI

[6] Rahul Dhumale and Amela Sapcanin, *An Application of Islamic Banking Principles to Microfinance*, Technical Note, Regional Bureau for Arab States, UNDP

[7] Zakah is an obligatory form of "charity" expected from every Muslim individual. This form of "charity" is an act of worship and a form of social investment. Zakah is one of the five pillars or fundamentals of Islam. The remaining pillars are the Shahadah (profession of faith), performing daily Salat (prayers), fasting and pilgrimage to Makkah. Zakah is considered an important economic tool in an Islamic State or society. It provides a religiously approved method of managing the economy and finance. Sadaqah is a voluntary act of giving alms 'fi sabillilah' (for the cause of Allah), by Muslims who want to contribute more than their obligatory zakah payment. Sadaqah may be given to mark or bring blessings to occasions such as weddings, anniversaries, personal success or even instances of sadness

Most conventional microfinance providers charge high rates of interest against the benchmarked mainstream banking rates. Main reasons are low returns as compare with the standard banks as the size of amount of microfinance is small and also the long period of repayment. Hence, entrepreneurs have to pay high interest rates as cost of funds (sometimes as high as sixty-seventy percent). Sometimes they have to pay more interest than the principal amount. Thus the purpose of the microfinance vanished as the poor do not dare to take loan and thus there will no inclusive growth.

Basically the interest rates are much less important to micro-enterprises than access, timeliness and flexibility. Interest rates on microfinance are pegged relatively higher, as they have to bare higher administrative charges, monitoring costs and their business is riskier than traditional financing agencies. There is indeed a general agreement on the issue that administrative and monitoring costs are higher with micro-financing. Thus it explains the differential in cost of financing of a Microfinance portfolio as compared to a traditional portfolio system. However, the method of micro financing need not be interest-based instead it should be based on the platform which will not hamper the microenterprise and also boost the poor and lead to inclusive growth.

Interest rate, high or low, is rejected by large sections of the Muslim societies as tantamount to *Reba*, something that is prohibited in no uncertain terms by the Islamic Shariah. One of the potential benefits of microfinance in Muslim societies is the empowerment of Muslim women. While the ability of microfinance institutions to deliver financial services to rural women in gender-segregated societies is commendable, working with Muslim women is a sensitive issue that often raises accusations of meddling with social codes. Some Islamic Microfinance institutions seek to overcome this through a shift in their focus from "women empowerment" to "family empowerment". In a few other Islamic Microfinance programs, a culturally appropriate way has been found of empowering women through gender-segregated ownership of the financing entity and involving separate appraisal of loan applications by women who develop their own gender-sensitive products and strategies for the future.

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or bereavement. In short, sadaqah can be given during any period of happiness or sadness or as a sign of gratitude to Allah Subhanu wa Ta'ala.

## Concept of Cooperative Banking

Cooperative endeavour is not an alien phenomenon to India.[8] The cooperative banks constitute the second segment of Indian banking system, comprising of about 14% of the total banking sector asset (March 2007). Bulk of the cooperative banks operates in the rural regions with rural coop banks accounting for 67% of the total asset and 67% of the total branches of all cooperative banks. Share of rural cooperatives in total institutional credit was 62% in 1992-93, 34% in 2002-03 and 53% in 2006-07. Cooperative banks have an impressive network of outlets for institutional credit in India, particularly in rural India. Till March 2007, there were 97,224 PACS in rural India against 30,393 branches of commercial banks (more than 3 times of outlet of coop banks). In March 2007, there were 102 savings A/C and 113 cooperative bank members per 1000 rural in India. Cooperative banks (both rural and urban) cater to small and marginal clients. Financial health of the cooperative credit institutions, particularly the rural cooperatives, has been found to be poor by several Committees.[9]

There are mainly three types of issues are faced with the cooperative banks like governance issue, finance issue and management issues. "Cooperation" is a State subject under the 7th schedule of Indian Constitution; hence all cooperative societies are governed by the Cooperative Societies Act of the State. Registration, incorporation, management, amalgamation etc are governed by the cooperative societies act and registration act of the particular State. At the same

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[8] Kautilya, in his Arthashastra described, "Guilds of workmen as well as those who carry on any cooperative work shall divide their earnings either equally, or as agreed upon among themselves". (1. Arthashastra - III,14.) The Cooperative Credit Movement in modern India, curiously, is a state initiated movement. The then State regime, though it had an unbenign political dispensation towards native subjects, had taken a lead to create an institutional credit structure essentially to cater to the needs of farmers and lower income groups. It is further interesting to note that cooperative initiative so taken was perhaps the first ever attempt at micro credit dispensation in India. Briefly outlining the theory of Cooperation, the Report of Maclagan Committee on Cooperation, the seminal document on cooperative credit movement in India, graphically describes:

> "That an isolated and powerless individual can, by association with others and by moral development and mutual support obtain in his own degree the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural abilities. By the union of forces material advancement is secured, and by united action self reliance is fostered, and it is from the interaction of these influences that it is hoped to attain the effective realisation of the higher and more prosperous standard of life which has been characterised as better business, better farming and better living". - Report of the Committee on Cooperation in India - 1915

[9] Mandira Sarma, *Current Developments in Cooperative Banking in India*

time, certain provisions of the Banking Regulation (BR) Act, 1949, are applicable to the cooperative banks that accept public deposit.In the rural structure, State cooperative banks and the District cooperative banks and in the urban structure, Public cooperative banks are covered by these provisions of the BR Act. This "duality" of control and regulation has given rise to serious problems in the governance structure such as interference by the State Govt. due to its combined role as dominant shareholder, manager, regulator, supervisor and auditor. Further the precise demarcation of the powers between the two regulators is ambiguous.

The cooperative banks structure is mainly focused on the creditors and primarily they are credit driven institution. The depositors are generally non members or nominal members without voting rights, and thus they, whose money is utilized, have no say in the management of the banking. The poor recovery and high outstanding makes the whole banking business standstill. Lack of standardization of business and low risk management and lack of diversified portfolio management are some of the concerning issues of the cooperative banking. These are to be considered in the process of synthesize of Islamic banking and cooperative banking.

## Synthesis between cooperative banking and Islamic banking

Indian cooperative banking has large catchment area. The banking has transformed life of agriculture, middle class and has transpired life of new entrepreneurs. In his report[10] submitted to the Government of India in 2006, Raghuram Rajan, former chief economist of the International Monetary Fund (IMF), has observed that "certain faiths prohibit the use of financial instrument that pays interest. The non-availability of interest-free banking products results in some Indians, including those in the economically disadvantaged strata of society, not being able to access banking products and services due to reasons of faith." What this actually means is that a vast section of the muslim population in India simply does not approach banks because no interest-

[10] Raghuram Rajan Committee, Chapter 3: Broadening Access to finance, Page 35 - "*While interest-free banking is provided in a limited manner through NBFCs and cooperatives, the Committee recommends that measures be taken to permit the delivery of interest-free finance on a larger scale, including through the banking system. This is in consonance with the objectives of inclusion and growth through innovation. The Committee believes that it would be possible, through appropriate measures, to create a framework for such products without any adverse systemic risk impact.*"

free banking product is available at present, and giving or receiving interest is prohibited in Islam.

“If interest-free banking can be introduced in India, it will revolutionise the economic scenario, unleashing massive financial resources, which are at present lying dormant because of the non-availability of a suitable environment,” says H. Abdur Raqeeb, convener of the national committee on Islamic banking of the ICIF. What, however, is interesting about this banking practice is that it is open to all, irrespective of faith, and in the present high-interest rate regime, if financing is available without the burden of the ever-increasing interest rates, it will be welcomed by all, advocates of the concept argue.[11] The inclusion of the fundamentals of Islamic Banking in Cooperative banking will lead to more inclusiveness of the financial portfolio. The use of religion in the financial engineering for inclusive growth and maximum poor people participation is new and innovative concept, which in India we can strongly implement by cooperative banking.

Recently Banking and Financial Services for Minorities conclave was organised in June 2011 at Mumbai which discussed ‘whether Banking and Financial Services should be customized to target minorities better and to mainstream them and push for financial inclusion’. Following are some of the recommendations that emerged from the conclave.

1. Introduce Islamic banking, which is not based on interest, speculation, uncertainty and gambling, the idioms forbidden for the faithful in Sharia, to bring about financial inclusion of the largest minority in the country.
2. Call it interest free banking as Islamic banking may have communal overtones in secular India.
3. Follow Kerala Government’s initiative on forming a public owned Islamic finance company.
4. Let SEBI’s permission to launch Sharia 50 index be a precursor for more such schemes.
5. Open more banks in habitations dominated by Muslims, Schedule Castes, Schedule Tribes and other weaker sections of the society.

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[11] Purnima S. Tripathi, *Inclusive banking*

6. Since Muslims do not wish to make use of the interest they earn on deposits, invest the same in education and other social sector projects.
7. Promote an investment inflow from the Gulf, the Far East and Malaysia and Singapore which gives 5% incentive on Islamic finance.
8. Promote financial literacy among minorities and poor. Involve NGOs in the exercise.
9. Promote formation of SHGs and cooperatives among minorities, SCs, STs and the women who are discriminated against by financial institutions.
10. Extend financial assistance to students from poor families for school, college and professional studies. Consider Andhra Pradesh's online fee reimbursement scheme to ensure that the assistance reaches them.
11. Teach entrepreneurial skills to women from poor households who have good skills but manufacture things on daily wages for middleman. Extend the line of credit and technical skills to such women.[12]

## Conclusion and Suggestions

In the light of above discussion, it is believed that cooperative banking in synthesis with the concept of Islamic banking can enhance the financial stability of the deprived sections of the society. But, there are certain statutory obstacles for the adoption of Islamic banking in India. Such as Section 21 of the Banking Regulation Act requires payment of interest which is against Shariah, Section 5 and 6 of the Banking Regulation Act disallows the bank to enter into any profit sharing and partnership contract which is the main base of Islamic banking, Section 9 of the Banking Regulation Act prohibits banks to own any sort of immovable property apart from private use, this is against Ijarah (for home finance).

In the case of Dr. Subramaniam Swamy v. State of Kerala[13] the question of constitutional validitiy of participation of the Kerala Government and the KSIDC (Kerala State Industrial Development Corporation) in the formation of an Islamic investment company for attracting investment to finance projects in Kerala. The principal ground for challenge was that the state's participation violates the principles of secularism enshrined in the Constitution. The rationale of

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[12] Official website of Indian Center of Islamic Finance http://www.icif.in/icif-news-event.php?event=ei&id=82
[13] High Court of Kerala WP(C).No. 35180 of 2009

the Government for using the Islamic investment vehicle was to tap the vast flow of funds generated by non-resident Indians in the Gulf countries. After considering the arguments of parties (almost entirely on issues of constitutional law), the Kerala High Court upheld the state's action in establishing the Islamic financial institution. Although the Kerala High Court's decision may not directly propel Islamic finance activity in India, it will definitely start the discussion of utilizing Islamic banking concepts in India.

Thus to allow Islamic banking into India the law are to be amended for interest free banking. An easy alternative is to allow them invest in equity of public listed companies. Another change required is heavy taxation return on equity investment as opposed to interest income.[14] For more participation of people in this financial engineering new mechanisms like profit sharing, risk sharing, joint venture and equity participation are to be introduced. Policies and the laws are to be amended for the welfare state and also for inclusive growth. There is need to give a thought on the all existing regulatory provisions which are based on interest, like the Cash Reserve Ratio (CRR) and the Statutory Liquidity Ratio (SLR).

Following are some steps which should be taken by the Cooperative Banking for effective implementation of the fundamentals of Islamic banking:-

a. **Interest free banking**

    The basic fundamental of the Islamic banking is the interest free banking as the Islamic law does not allow interest (riba). Rate of interest and the burden to repay it put most of the poor to be away from bank. If bank can not charge any interest rate on the loan the more people will attracts towards banking. Use of insurance and getting returns from the activity for which loan has provided will be one of the ways to get returns on loan.

b. **Be a friend to the customer not only banker**

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[14] Soumik Majumdar, *Islamic banking In India – What is the future potential?* Available at http://www.crisil.com/crisil-young-thought-leader-2008/dissertations/Dissertation_SoumikMajumdar.pdf

Banks are not only the mechanical entity to accept the deposits and credit the loans but bank has to perform much higher role in the process of financial engineering. Bank has to be a friend of the customer, it should advice to the person about investment, activity of the market, trends of market and future of the market.

**c. Participate in the growth and Encourage the entrepreneurship**

Participation in the business of the debtor is not allowed in Indian banking. For maximum inclusion of poor and to empower them it is need of the society to consider new and innovative aspects of the banking and to change the law accordingly. Still bank can open information counter and also can conduct workshops for poor for enabling them for entrepreneurship.

**d. Be a mentor**

Banking is always necessary because banks are the safest and most trustworthy system in every step of financial life of a person. The role of the bank is to be transformed so as the banks can be mentor of the customer. The fear in minds of lower strata of the society about the banking should have to be vanished. Therefore banks have to be philosopher and guide of the society. They should establish clinics for agriculture, small scale industry, village industry, household industry and should give guidance to the people. Islamic bank are the participant and mentor in the growth of the customer and this is the reason it has transformed the lives of many.

**e. Transform the loan into aid**

Loan is usually borrowed when person is in dire need of money. In India it is borrowed in marriages, programmes, to purchase seeds for agriculture, for construction of house etc. Loan required security, but what about the persons who do not have security to deposit. These persons are always put out of banking. The concept of loan in need is to be changed to loan for assistance. Loan is to be utilized for empowering the person as aid to the person. Aid means assistance, assistance is not required any security, it is in friendly nature. Thus it will rise the people participation in banking and will lead to rise of inclusive growth.

f. **Spiritual banking – spirit of banking, importance on faith, belief, ethics, morals.**

Islamic banking is based on the ethics of islam, faith of islam and rules of islam. Islam is not only the religion but it also gives us a way towards a life, it teaches rules and regulations towards a society. India cooperative banking has a historic base from guild of traders to modern cooperative banking.

Spiritual banking is nothing but the spirit of banking. It is the idea to resolve the crisis at the bottom of the pyramid to include those who are out of banking into the process of banking by way of faith towards humanity, belief towards individuality and moral towards poorest of poor. Now there is need to invert the pyramid of banking and to give more attention towards the poorest of poor for inclusive growth. The Crisis at the bottom has to be given more importance by way of faith, belief, morality and ethics. Infact, ethical banking is the need of the society. No hidden charges, no interest rates on loan, participation in the man building process are required for inclusive growth. If we can change our system and adopt new perspective of Islamic banking and microfinance, like partnership sharing, mentoring, guiding, etc through our long established and time tested cooperative banking, the day will not be too long to achieve inclusive growth and pro poor financing. Let us conclude by the Sanskrit proverb -

"ayam nijah paro veti gananaa laghuchetasaam
udaaracharitaam tu vasudhaiva kutumbakam"

(He is mine and he is other, is the thought that narrow minded people have.
For noble people, entire world is family.)

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