



**SOCIO-ECONOMIC VIABILITY OF THE MALAYSIAN
HAJJ MANAGEMENT AND FUND BOARD MODEL
FOR INDIA**

BY

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ABSTRACT

The Malaysian Hajj Management and Fund Board (Tabung Haji) has proven to be a very successful faith-based financial institution in last five decades. It has enormous amount of potential to resolve variety of socio-economic challenges of the Muslim society. In view of the above fact, this study is conducted to examine the socio-economic viability of Hajj Management and Fund Board Model for India. It tried to capture the socio-economic challenges of Indian Muslims along with the challenges related to their performance of Hajj. In addition, the socio-economic viability is explored through conducting interviews with five participants. The data were collected with both secondary as well as primary technique of data collection. Primary data were collected to answer the research questions while the secondary data was collected to build the theoretical base for the study. E-questionnaire method was used as a primary data collection tool in order to avoid the geographical, time and cost related challenges. On the other hand, government reports, government portals, articles and books were used for secondary data. Descriptive analysis was utilized in this study to gauge the financial inclusion status of the respondents along with the hajj services related challenges in India. Factor Analysis is used to find the underlying structure among the variables defining the perception towards establishment of Hajj Management and Fund Board Model. Then Multiple Regression Analysis was utilized to find the relationship between the variables such as perception towards Interest Free Institution, socio-economic sustainability and establishment of Hajj Management and Fund Board Model. Framework Analysis was employed to analyze the qualitative data. The result indicates that establishment of such institution in India will certainly create employment opportunities, easily mobilize savings due to its interest-free feature and provide an investment platform to the society which in turn positively affect the socio-economic status and desire of pilgrims. The huge Muslim population is another factor which could influence the success of such institution in India. As far as regulatory challenges are concern, it is found that Tabung Haji operates as a Non-Banking Financial Institution. This very nature of Tabung Haji makes this model legally viable for India because to introduce such institution regulators doesn't have to make amendments to the existing Banking Regulation Act. Non-Banking Financial Institutions in India operate under Companies Act with the approval of the Central Bank of India.

ملخص البحث

إدارة الحج المالية (تابونق حجي) أثبتت نجاحا كبيرا كمؤسسة مالية قائمة على أساس إعتقادي خلال الخمسة عقود الماضية. كما أن لديها القدرة على حل الكثير من التحديات والمشاكل الإجتماعية والإقتصادية في المجتمع المسلم. وكإثبات لهذه الحقيقة، فقد أعدت هذه الدراسة لاختبار الجدوى الإقتصادية والإجتماعية لإدارة الحج ومجلس إدارة الصندوق كأ نموذج للهند. كما حاولت هذه الدراسة إستقصاء التحديات الإقتصادية والإجتماعية للمسلمين في الهند بالتزامن مع التحديات المتعلقة بأداء الحج. بالإضافة إلى ذلك، فقد تم استكشاف الجدوى الإقتصادية والإجتماعية من خلال إجراء مقابلات مع خمسة مشاركين. البيانات تم جمعها بالطريقة الأولية والثانوية المعدة لجمع البيانات. البيانات الأولية جمعت للإجابة على أسئلة البحث، بينما البيانات الثانوية جمعت لبناء الأساس النظري لهذه الدراسة. أما بالنسبة للبيانات الأولية فقد استخدم فيها الإستبيان الإلكتروني لإجتناّب التحديات الجغرافية والحرص على حفظ الوقت. في الجانب المقابل، التقارير الحكومية، والصفحات الحكومية، والمقالات والكتب جميعها استخدمت كبيانات ثانوية. كما تجدر الإشارة إلى أنه تم استخدام التحليل الوصفي لقياس حالة الإندماج المالي من المستطلعين جنبا إلى جنب مع خدمات الحج المتعلقة بالتحديات ذات الصلة بالهند. كما تم استخدام تحليل العوامل لإيجاد البنية الأساسية بين المتغيرات التي تحدد التصور نحو إنشاء إدارة الحج ونموذج مجلس إدارة الصندوق. ثم تم استخدام التحليل الإنحدار المتعدد لإيجاد العلاقة بين المتغيرات مثل النظرة تجاه المؤسسات الخالية من الربا، والإستدامة الإجتماعية والإقتصادية وإنشاء إدارة الحج ونموذج مجلس إدارة الصندوق. كما أن تحليل الإطار استخدم لتحليل البيانات النوعية. والنتيجة تشير إلى أن إنشاء مثل هذه المؤسسة في الهند بالتأكيد سيخلق العديد من فرص العمل ويسهل الإستفادة من المدخرات لأنها خالية من الربا، كما توفر منصة إستثمارية للجميع والتي بدورها ستؤثر إيجابا على الوضع الإجتماعي والإقتصادي ورغبة الحاج. نسبة السكان المسلمين الضخمة في الهند هي عامل آخر والذي يمكن أن يؤثر على نجاح هذه المؤسسة. وبقدر أهمية التحديات القانونية، فإن تابونق حجي تعمل بوصفها مؤسسة مالية غير مصرفية. فهذه الطبيعة لتابونق حجي تجعل هذا النموذج قابلا للتطبيق بالهند وذلك بسبب أن المنظمين لا يحتاجون إلى إجراء تعديلات على قانون تنظيم العمل المصرفي القائم. المؤسسات المالية غير المصرفية في الهند تعمل بموجب قانون الشركات بموافقة البنك المركزي.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science in Islamic Banking and Finance.

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I certify that I have read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science in Islamic Banking and Finance.

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Quazi Syed Aon Bin Hassan

Signature.....

Date.....

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I dedicate this study to my Parents. May Allah have mercy upon them as they had mercy upon me when I was small! Ameen!

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LIST OF ABBREVIATIONS

PBUH	Peace Be Upon Him
AD	Anno Domini
SWT	Subhanu wa ta'ala
HCI	Hajj Committee of India
SCI	Supreme Court of India
UP	Uttar Pradesh
SRC	Socio Religious Category
SC	Schedule Caste
ST	Schedule Tribe
H-OBC	Hindu-Other Backward Class
H-UC	Hindu-Upper Class

GLOSSARY

Subhanu wa ta'ala	It means ‘The most glorified, the most high.’ It is used to glorify Allah when mentioning His name.
Anno Domini	It is used to indicate that a date comes the specified number of years after the traditional date of Christ’s birth.
Peace Be Upon Him	A phrase that Muslims often say after saying/hearing the name of a prophet of Islam.
Socio Religious Category	It’s a categorization of societies in India on the basis of social and religious status or background.
Hajj	The annual Muslim pilgrimage to Makkah.
Zakat	It’s a payment made annually under Islamic law on certain kinds of property and used for charitable and religious purposes, one of the Five Pillars of Islam.
Waqf	Islamic endowment of property to be held in trust and used for a charitable or religious purpose.
Halal	Halal originates from an Arabic phrase that means allowed or permitted by Islamic Law.
Tabung Haji	Tabung Haji or Lembaga Tabung Haji is the Malaysian hajj pilgrims fund board. It was formerly known as Lembaga Urusan dan Tabung Haji.
Arafah	The ninth day of Dhul-Hijjah (12 th Month in Islamic Calendar) is the day of ’Arafah. It is on this day that the pilgrims gather at the mountain plain of ’Arafah, praying and supplicating to their Lord. Arafah is one of the important hajj rituals.
Kaffarah	Making repayment for some failure to act, harm done to another, etc.
Tawheed	<i>Tawheed</i> in Arabic means attributing Oneness to Allah and describing Him as being One and Unique, with no partner or peer in His Essence and Attributes.
Sufism/Sufi	Sufism is the esoteric dimension of the Islamic faith, the spiritual path to mystical union with God. Sufi is the one who follow Sufism.
Shari’ah	Islamic law based on the teachings of the Quran and the traditions of the Prophet (Hadith and Sunna), prescribing both religious and secular duties.
Masjid Al Haram	The sacred Mosque in Makkah, Saudi Arabia.
Hujjas	It is used a plural sense for the hajj pilgrims.
Riba	Riba` is a loan with the condition that the borrower will return to the lender more than and better than the quantity borrowed.
Umra	The non-mandatory lesser pilgrimage made by Muslims to Mecca, which may be performed at any time of the year.

CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND OF THE STUDY

India constitutes the world's third largest Muslim population after Indonesia and Pakistan. The world's 10.2 per cent Muslim population belongs to India (Pew Research Centre, 2009). According to Ministry of Home Affairs, Government of India, the total number of Muslim population stands at 138 million as of 2001 (Census, 2001). That makes Islam the second largest religion after Hinduism followed by Christianity, Sikhism, Buddhism, Jainism and others. This second largest religion of India has first set its foothold in Indian subcontinent during the life time of Prophet Muhammad (PBUH). The Arab and Persian traders brought Islam to India while trading in spices, cotton, gold and African products. It is evident from the very first mosque of India built in 629 AD in Kerala. Further expansion took place during Umayyad Dynasty of Caliphs. Muhammad Bin Qasim as an army general of Umayyad Dynasty took over the Northwest part of Indian subcontinent called Sindh in 711 AD (Hodgson, 1961). The Muslim population growth rate has ever since been increasing. The record suggests the growth rate of 9.91 to 10.70 per cent during 1951-1961. The very next decade the growth rate was 10.70 to 11.21 per cent. During the period of 1971-81 it was 11.21 to 11.35 per cent and in between 1981-1991 it was 11.35 to 11.67 per cent (Mondal, 2000).

As far as the practice of Islam in India is concern, a great deal of religious work took place during the time of different Mughal emperors. Akbar was the first emperor who started organizing Hajj pilgrimage at state expenses and provided

subsidy to pilgrims (Suraiya Farouqi, 1994). *Fatawa-yi'Alamgiri* (Islamic Rulings of *Hanafi* tradition) was compiled by the group of scholars and supported by the emperor Aurangzeb. They all have extended patronage to Islamic scholars, sites and had strong association with Sufism. Babur initiated Sufism in India from their base in Kabul (Metcalf, 2009). However, the practice of religion for this ever growing Muslim community had become a matter of great concern with the fall of this six-century Muslim rule of India. The last Mughal Emperor, Bahadur Shah Zafar, had taken the challenge of putting an end to growing political power of British in India. The unsuccessful uprising brought a complete disaster to the rich Islamic civilization and pluralistic culture. The killing of thousands of Islamic scholars, leaders and army personnels' left an untainted mark on the history of Indian Muslims (Islam, 2011). The intellectual community has however safeguarded the religion by establishing different educational institutions in British India which has further helped in practicing and propagating Islam in the state. To name few, Mohammadan-Anglo College (Currently Aligarh Muslim University) was founded by Syed Ahmad Khan, Muhammad Mongiri has founded Nadwat al-‘Ulama, and Muhammad Qasim Nanotwi's has founded Dar al-‘Ulum Deoband. These institutions produced traditional theologians (*‘ulama*), bureaucrats and academicians (Altaf & Potter, 2009). Later, the fall of British India had given birth to secular democratic nation. The new India acknowledged itself as a pluralistic secular state with all the rights given to its citizens to practice and preach their respective religions. This distinctive characteristic of India is efficiently captured through country's constitution, which promotes human dignity, harmonious co-existence and well being of all its citizens regardless of any forms, hues and shades (Ministry of Law and Justice, 2007). In lieu of the above rights, Islam is practiced and preached across the nation. Educational institutions are

established, Mosques are built and Parliamentary Bills are passed to facilitate the religious practices for Muslims. That has resulted in thirty thousand Islamic schools (Madaris). Muslim Personal Law is enacted on the basis of shari'ah to look into the issues related to marriage, divorce, adoption and inheritance and widely recognized by the Indian judicial system (International Religious Freedom Report [IRFR], 2012). As far as zakat is concern, zakat affairs are not governed by the government of India rather managed privately by different zakat institutions and Islamic schools. Zakat money is paid annually to needy individuals and different zakat institutions. Furthermore, five time prayers along with annual festival prayers are observed in congregation. All India Waqf Board and Hajj Committee of India were established by the government to facilitate the Waqf and Hajj affairs. Thousands of Muslims perform Hajj every year through Hajj Committee of India. Fixation of Hajj quota, flight services, accommodation and transport arrangement along with the Hajj training is taken care by Hajj Committee of India.

However, the challenges are faced in terms of performing Hajj. Hajj is one of the five fundamental pillars of *Islam* (al-Bukhari, *Fathul Bari Sharh Sahih*, vol. 1, ed. 2003: 67). The importance of *Hajj* can be elaborated from a verse of Quran where Allah (SWT) says, ``and whosoever can afford should visit the House on pilgrimage as duty to God. Whosoever denies should remember that God is above heed of the world (Qu'ran, al-Baqarah: 97).'' According to this verse of Holy Quran, it is for those Muslims who can afford to perform Hajj by their physical as well as financial ability. However, it is a deep desire of every Muslim to visit the Holy Mosque in Makah at least once in his/her lifespan regardless of their socio-economic status. This yearning has inspired hundreds and thousands of Indian pilgrims to visit the holy land every year. Despite of those pilgrims there are still many who could not make it to

Hajj due to their economical backwardness. As stated earlier, India has population of 138,188,240 million Muslims (Census, 2001). In 2012, the total number of Hajj applications received by Hajj Committee of India from Muslims across the country was close to eight hundred thousand (The Hindu, 2012). However, the number of Hajj pilgrims who visited the holy land the same year has not gone beyond 125,064 out of the quota of 125,110 (Hajj Committee of India [HCI], 2012). This number shows the significant gap between the Indian Muslim population, Hajj applicants and the Hajj Pilgrims. This difference may have some reasons of its own but the weak economic condition of Muslims in India has also played a major role in further widening this gap. Moreover according to the latest verdict of Supreme Court of India, the subsidies which were given to the Hajj pilgrims on air fare have been lifted (Supreme Court of India [SCI], 2012).

Also, the socio-economic growth has shown a negative side for Indian Muslims. Muslims in India have less participation in economy compared to any other community. The government report highlights that approximately fifty per cent of Muslims are financially excluded. Majority of Indian Muslims are engaged in self employment that too in small proprietary enterprises and their participation in formal sector employment is significantly less than the national average. Furthermore, the greater part of Indian Muslims is so poor that they are not targeted by the commercial Banks. Reserve Bank of India found lack of thrust for increasing the credit flow to minority communities in the lead banks irrespective of the fact that majority of Muslims are self employed and engaged in small enterprises (Sachar Committee Report [SCR], 2006). The work participation for men is 48 per cent and for Muslim women it is just 9.6 per cent. There are 43 per cent of Muslims in India who live below the official poverty line. Indian Muslims have less access to public distribution

of food than any other minority section of the society; it is just 22 per cent of the total Indian Muslim population (Nazeeruddin, 2012). Coming to social status, the majority of Indian Muslims earn their livelihood through odd jobs and their share in industrial sector and private business is extremely negligible and poor (Javaid & Ahmed, 2012). There is a shortage of healthcare facilities in larger villages with a sizeable Muslim concentration. The housing conditions of Muslims are worse off than general Hindus. Muslim households are not well served in modern fuel and lighting (SCR, 2006). All these have greater impact on their social mixing with the other half of the economically sound population.

As discussed earlier, Muslims in India go to Hajj as part of their religious practices. The actual numbers of pilgrims however are relatively low compared to the Muslim population. There is also a significant gap found between hajj applicants and the total Muslim population. Their weak economical condition is more likely to be the reason behind this small number of Hajj pilgrims from India. Furthermore, the weak economic condition has also impacted on their social status. These challenges can be answered by Hajj Management and Fund Board as it has potential to make the pilgrimage more accessible to Indian Muslim community. Hajj fund being a religiously motivated financial activity could mobilize more savings from the community; more savings could increase the size and nature of the investment that could further affect the bonus on investment. It could also provide various Islamic investment avenues to their account holders in foreign as well as local financial market. Jobs could easily be created by opening up different subsidiaries. Also, it could be an easy way out from the well-established interest based financial system for Muslims. However, the current existing Hajj Committee of India only facilitates the annual hajj services to Indian Muslims. The services provided by the institution

includes visa processing, fixation of quota and exchange rate, accommodation, transportation, flight services etc (HCI, 2012). Million of hajj aspirants get exposed to this institution every year with a desire to perform Hajj. Therefore there is a need to explore a model of hajj institution with a capability of helping the Indian Muslims to perform hajj simultaneously improving their socio-economic conditions through involving them into economic activities.

This study therefore examines whether or not Hajj Management and Fund Board Model has potential to help the Indian Muslims to perform Hajj along with the mobilization of savings from them and making *halal* investment on profit and loss basis. Looking at the case of Tabung Haji, it has made the performance of *Hajj* easier and accessible without pilgrims' indulgence in any financial instability. Muslims have participated in country's economy through institutional set up (Borhan & Sa'ari, 2005). Thus, it showed simultaneous positive effect on society's spiritual as well as economical status. According to Chapra (1999) the role of institutions in Islam as a tool to involve oneself in economic and religious activity is significantly high. This is also because the prosperity of any society depends on economic activities, incentives and facilities provided by the state and tools. It is evident from the above facts that Muslims in India are going through socio-economic crisis. Hence a tool in the form of Hajj Management Fund Board is needed. Furthermore, Hajj has always been a source of trade and commercial meeting point. It has eased the process of exchange of economic, cultural and scientific ideas between different nations and their citizens for ages (Bose, 2006). Nevertheless, the recent approval by the Reserve Bank of India to operate Islamic Non-Banking Financial Institution may give an easy access to Tabung Haji to Indian market (The Economic Times, 2013). If referred back to the history of

Islamic financial institutions in Malaysia, it is found that the current Islamic financial industry has made the way through the introduction of Tabung Haji (Laldin, 2008).

1.1 PROBLEM STATEMENT

Indian Muslims go to Hajj as a part of their religious practices every year. However, there is a significant gap found between hajj applicants and the Muslim population. The reason of this gap is likely to be the weak economical condition of Muslims; this weak economical condition has not only impacted their desire to perform Hajj but also affected their social life. Additionally, the recent withdrawal of Hajj subsidy on air fare by the Indian government will make hajj affairs in India more costly. Hence, it is evidently difficult to perform Hajj under such socio-economical condition. These challenges can be addressed by Hajj Management and Fund Board Model as it has potential to make the pilgrimage easily accessible to all the socio-economic classes of the society at the same time allow them to participate in economic activities through institutional set up. India being the third largest Muslim population lacks such institutional set up with a facility of interest free hajj fund services. Looking at the case of Tabung Haji, it has been successful in mobilizing savings from the Muslim depositors and channelizing it into different profitable interest free investments. It has also efficiently managed all the pilgrims' services related functions (Borhan & Sa'ari, 2005). This institution has impacted religious as well as socio-economic life of Muslims in Malaysia. Hence, an institution is needed with a capability of helping the Indian Muslims to perform hajj simultaneously improving their socio-economic conditions through involving them into economic activities. Therefore hajj fund board model is taken as a subject of this study.

1.2 RESEARCH OBJECTIVE

- To study the financial inclusion status of Muslims in India.
- To examine the hajj services related challenges of Indian Hajj pilgrims.
- To explore the socio-economic viability of Malaysian Hajj Management and Fund Board model for India.
- To examine the factors affecting Indian Muslims perception towards New Hajj Management and Fund Board Model.

1.3 RESEARCH QUESTIONS

- What is the financial inclusion status of Muslims in India?
- What are the challenges faced by Indian Muslims in terms of Hajj?
- How Hajj Management and Fund Board model is socio-economically viable for India?
- What are the factors affecting Indian Muslims perception towards New Hajj Management and Fund Board Model?

1.4 SIGNIFICANCE AND CONTRIBUTION OF THE STUDY

This study focuses on the socio-economic viability of Hajj Management and Fund Board Model for Indian Muslims. To the best of my knowledge, it is first of its kind and had not been conducted before in Indian context. Hence, it will add to the literature pertaining to the subject and could be a source of reference for future studies. This work could further benefit the Government as well as Muslim community of India in number of ways. The huge population of Indian Muslims could think of performing *Hajj* by saving through *halal* means regardless of their weak economic status. The savings could easily be mobilized and used for the betterment

of the community. This will boost the confidence of Muslims in Indian financial system. This work could help the policy makers as reference point in enhancing the services of existing Hajj committee of India. Also, it could open new door to investment avenues for Indian Muslims. They could think of investing in projects under taken by Hajj committee without the fear of investing in interest based projects. It could also create jobs for Muslim community and could resolve the problem of unemployment till some extent.

1.5 LIMITATIONS OF THE STUDY

Firstly, limitation is encountered in terms of covering all the viability aspect e.g. market, political or regulatory viability cannot be covered due to limited time and resources. Hence, the study looks into socio-economic viability only. Further, the limitation is faced in terms of sample size. India is huge in area therefore this study cannot cover all the twenty eight states and union territories of India. For this few states in different region will be targeted to come up with reliable outcome. Furthermore, interviewees cannot be approached in person. Hence, appropriate interview technique will be used to overcome this limitation. Last but not the least; it is the first work of its kind on the viability of socio-economic aspect of Hajj Management and Fund Board Model for India. Hence, the availability of academic literature pertaining to the subject is on dearth. This limitation however been addressed till some extent by referring to couple of work related to Hajj Management and Fund Board of Malaysia.

1.6 SCOPE OF THE STUDY

Each and every aspect of viability (market, political or regulatory) cannot be covered due to the constraints of time and resources. Hence, the study looks into socio-economic viability only. Also, the reason behind taking up socio-economical viability was the fact that the economic well being plays a major role in the desire of performance of Hajj. Therefore the study covers the current socio-economic status of Muslims from the available literature. The special emphasis has been given on bank and credit access while discussing the socio-economic status of Indian Muslims. It is covered keeping in mind the interest free financial nature of the institution under discussion. The future study could be conducted on the remaining left out areas of viability. Furthermore attempts are made to examine the hajj management services related challenges of Indian hajj pilgrims. It actually examines the service providing efficiency of the current Hajj Committee of India.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This study has tried to examine the socio-economic viability of Malaysian Hajj Management and Fund Board Model for India. Hence, it is critically important to first build a strong theoretical foundation for this work. Though there are limitations attached on availability of literature but the best efforts are put to present the model of both the Hajj Institutions: Hajj Management and Fund Board of Malaysia and Hajj Committee of India. As far as the design of this chapter is concern it is divided into ten sections. The first section shed lights on the meaning and concept of Hajj. The remaining section captures the existing model of both the institutions along with the conceptual model of New Hajj Committee of India. Financial inclusion status of Indian Muslims is also discussed in this chapter. It is done keeping in mind the financial aspect of Hajj Management and Fund Board Model. Lastly, comparison is made between Hajj Committee of India and Tabung Haji.

2.1 MEANING AND CONCEPT OF HAJJ

Hajj has been understood and explained differently by different scholars. Though it is understood differently but the writing doesn't differentiate in fundamental principles of Hajj. McDonnell (1986) has understanding of *Hajj* as to journeying and encircling to holy Makah. According to Haidar (1995), *Hajj* is to 'visit to the revered place' or the pilgrimage to Mecca. According to Al Azhar (2010), The Arabic language gives out the meaning of *Hajj* as to go on a journey with a definite objective. In *Shari'ah*, it