

POST-FLOOD RECONSTRUCTION OF KERALA AND SCOPE OF INTEREST-FREE FINANCE

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Abstract

The state Kerala has achieved many developments in its social, political and economic aspects. 'Kerala model of development' was a major discussion on the approaches of development in India. But the productive sectors of Kerala remained stagnant and only the service sector achieved rapid progress. Insufficient Infrastructure with high dense population of the state due to the scarcity of financial resources further destroyed due to the flood of 2018, which submerged the Kerala economy and the life of the people. The most affected sector is the infrastructure sector and the reconstruction became very expensive because of huge interest rate in the existing system of finance. This paper presented the scope of interest free finance as an alternative solution for the reconstruction of Kerala infrastructure in the post-flood period.

Key words: Post-flood reconstruction; Kerala Flood recovery needs; infrastructural development Interest-free finance Sukuk; Corporate Social Responsibility (CSR) funds.

Introduction

'Kerala model of development' was one of the major discussions on various approaches of development in India. The state has achieved many developments in social, political and economic aspects. The Gross State Domestic Product of Kerala for 2019-20 (at current prices) is estimated to be Rs 875514 crore. This is 13% higher than the revised estimate for 2018-19. The growth rate of Kerala's GSDP (at current prices) has increased from 9.6% in 2015-16 to 11.4% in 2017-18(13). Well-connected road networks, railway connecting districts, international airports, National Waterway consisting of backwaters, ports and Vallarpadam Transshipment Container Terminal at Kochi and Vizhinjam deep sea Transshipment Container Terminal helped the state to become a commercial and travel hub (2). The state has achieved high standard of living with low

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percapita income. Kerala ranked first in the Human Development Index (HDI) in the country, with 0.77(6). Kerala, despite its low income level has achieved more than even some of the most admired high growth economies such as South Korea (4). There are challenging questions also on the sustainability and the fame of Kerala model of development along with wide discussions. The state has an increasing trend of consumption and high dependency on foreign remittances. Infrastructure development is insufficient with dense population of the state and small Share of FDI. 'Social development' and 'economic stagnation' are coexisting in the state which seems like a paradox(7). This gap widened due to the flood of 2018 which submerged the Kerala economy and the life of the people of Kerala.

Between June 1 and August 18, 2018, Kerala experienced the worst floods ever since 1924. The torrential rains triggered several landslides and forced the release of excess water from 37 dams across the state, aggravating the flood impact. Nearly 341 landslides were reported from 10 districts. The devastating floods and landslides affected 5.4 million people, displaced 1.4 million people, and took 433 lives. The Government reports that 1,259 out of 1,664 villages spread across the state's 14 districts were affected. The floods and landslides caused extensive damage to house, roads, railways, bridges, power supplies, communications networks, and other infrastructure; washed away crops and livestock. The Post-Disaster Needs Assessment (PDNA) conducted by UNO under the leadership of the Government of Kerala estimated a total recovery needs of USD 4.4 billion(16).

This necessitated an amount of Rs. 31000 crores (USD 4.4 billion) for recovery and reconstruction of the state. Increased borrowing, additional funds from Centrally Sponsored Schemes(CSS), Chief Ministers Disaster Relief Fund and lottery, augmenting resources through taxes and other ways such as additional statutory block revenue deficit, tapping Corporate Social Responsibility(CSR) Funds, crowd funding through digital platforms, seeking grants from NGOs and international NGOs for recovery and reconstruction, and setting up Voluntary Reconstruction Funds, etc are the options for mobilizing the required resources for recovery and reconstruction over a timeframe of five years (17). Government of India announced the assistance of Rs. 600 crore (15). An additional assistance of Rs. 3048.39 crore is also declared from the National Disaster Response Fund (8). The state has decided to impose Kerala Flood Cess in 2019-20 budget with the permission of GST council for which, 1 percent cess on the

supply of goods and services with GST rate of 12 percent, 18 percent and 28 percent, and on Gold and all services, will be levied upto 2 years for rebuilding. By levying this cess, the state government is expecting additional revenue of Rs. 600 crores(13).

Materials and Methods

This paper mainly attempted to study:(i) the flood disaster effects (damage and loss) and recovery needs of infrastructure sector of Kerala and (ii) to understand the scope of interest-free finance in infrastructural development of Kerala during post-flood period. The materials have been collected from secondary sources like published reports, articles and unpublished reports. Flood disaster effects, disaster recovery needs in different sectors and various perspectives in interest-free finance are used for analysis.

Results, Analysis and Discussion

Disaster Effects (Damage and Loss) and Recovery needs of infrastructure sector:

The devastating floods and landslides caused extensive damage to houses, roads, railways, bridges, power supplies, communication networks, and other infrastructure, washed away crops and livestock and affected the lives and livelihoods of millions of people in the state (1). Early estimates by the government put recovery needs at about USD 3 billion. However, it was felt that a comprehensive assessment of damage, loss, and needs would amount to much more. The total estimated damage does not include damages to private buildings and properties including shops, showrooms, business units, private hospitals, educational institutions and private vehicles(18). Table 1 shows the Share of Disaster Effects across sectors and the share of estimated total disaster effects among the main sectors of social and economic activity reveal that the most affected are the infrastructure sectors(38 percent).

| Sectors | Total Recovery Needs | | Share of Disaster Effects (%) | Share of Disaster Recovery Needs (%) |
|----------------|----------------------|------------------|-------------------------------|--------------------------------------|
| | In Rupee (Crores) | In USD (Million) | | |
| Social | 6337 | 906 | 18 | 20 |
| Productive | 4498 | 643 | 17 | 15 |
| Infrastructure | 15659 | 2236 | 38 | 51 |
| - - - | 4221 | 604 | 27 | 14 |
| TOTAL | 30715 | 4389 | 100 | 100 |

Source: Post Disaster Needs Assessment Executive Summary, October 2018

The share of estimated recovery needs among the main sectors of social and economic activity reveals that infrastructure sectors have highest recovery needs which constitutes 51 percent of the total recovery needs followed by the social sectors (20 percent), productive sectors (15 percent) and cross-cutting sectors (14 percent) (table 1).

Recovery Needs of Infrastructure Sector: Table 2 shows the Summary of Disaster Effects (Damage and Loss) and recovery needs in infrastructural sector of Kerala. It does not take into account losses incurred by private traders and business units and also damage, and loss suffered by Kochi airport, road transport and waterways (16).

| Infrastructure sectors | Total Recovery Needs | |
|-------------------------------|----------------------|------------------|
| | In Rupee (Crores) | In USD (Million) |
| Water, Sanitation and Hygiene | 1331 | 190 |
| Transportation | 10046 | 1435 |
| Power | 353 | 50 |
| Irrigation | 1483 | 212 |
| Other infrastructure | 2446 | 349 |
| TOTAL | 15659 | 2236 |

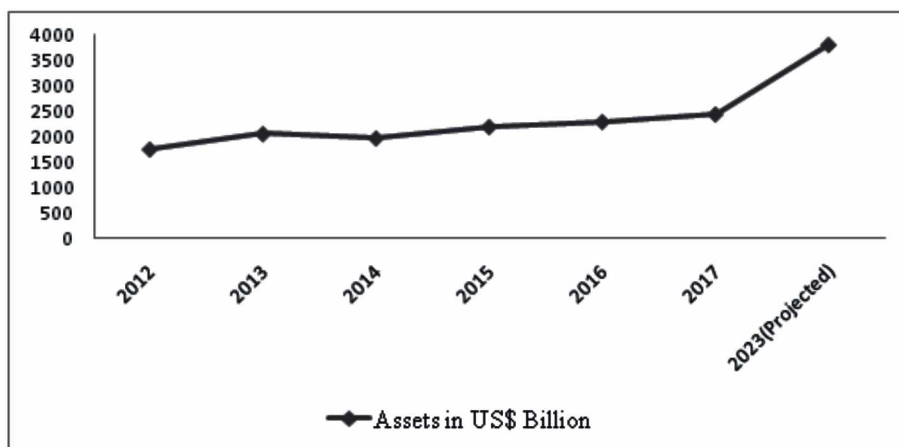
Source: Post Disaster Needs Assessment Executive Summary, October 2018

Interest-free Finance for Post-flood Reconstruction of Kerala: The potential exists for Kerala to tap the resources and cost-effective ways for achieving equitable and sustainable development. The flood disaster provides the opportunity to restructure and recreate the state economy by mobilizing resources through alternative ways. Government of Kerala finance critical and large infrastructure projects by mobilizing the medium as well as long term funds mainly through Kerala Infrastructure Investment Fund Board (KIIFB) with the ways like Alternative Investment Funds (AIF), Infrastructure Investment Trust (InVIT), Infrastructure Debt Fund (IDF) and build the institutional framework needed for this. In this new scenario, KIIFB has been restructured to act as the key Special Purpose Vehicle (SPV) for mobilizing and channelizing the funds to various infrastructure SPVs(17). Rs. 1000 crore has been earmarked for infrastructure projects to rebuild Kerala initiative. An outer ring road on the Parippally-Vengod-Aruvikkara-Vizhinjam route, and an allied growth corridor have been proposed around the Vizhinjam Port(13). The investment in infrastructure became very expensive because of huge interest rate will lead to debt trap, interest burden and resource drain. At this crucial situation, it is relevant to think of zero interest finance for the reconstruction of Kerala in the post flood period and mobilize resources for the development of infrastructure.

After the global financial crisis in 2008, interest free banking and finance emerged as a major discussion topic and is fast growing in the world financial sector. America, France,

Japan, Britain, Malaysia, Gulf Cooperation Council Countries, etc embarrassed this alternative. In India, Anand Sinha committee, RaghuramRajan Committee and Deepak Mohanty committee pointed out the importance of interest free finance. Figure 1 shows the growth of Global Islamic Finance Assets from 2012 to 2017 and revealed the growth from USD 1746 in 2012 to USD 2438 Billion in 2017 and predicts the size of the market to hit USD 3809 Billion by 2023.

Figure 1: Global Islamic Finance Assets Growth



Source: Islamic Finance Development Report, 2018

A feasibility study for Ernst and Young (5) an international consultancy firm for Kerala State Industrial Development Corporation observed that state has huge potential investment source from domestic sector as well as from NRIs on interest free basis. Muslims include 24 percent in the total population of the state with high rate of potential saving are interested to deposit and save on non-interest schemes (12). The study recommended interest free financial institution to mobilize deposits and investments both from inside and outside the state. Accordingly, the Government of Kerala initiated a new venture of Rs. 1000 crores in 2009 through a Non-Banking Financial Company for development and infrastructure projects, named Al-Barakah and later renamed as Cheraman Financial Services, through interest free participatory finance based on Shariah principles (18).

Cheraman Infrastructure Private Ltd has been established to carry out the infrastructure development activities mainly through BOT and related modes with the participation of Kerala State Industrial Development Corporation and private investors, mostly Gulf

based NRIs (10). The objective of the company is to channelize ethical investments for developing world class industrial, social and residential infrastructure in Kerala. The company targets development of Industrial, IT, Logistics Parks, Special Economic Zone, Electronic Parks, Roads and Urban Transportation, Social infrastructure, Residential and Commercial centres. The first such project was executed in Kannur in association with Kannur Muslim Jama-Ath (18)

Interest free financial institutions have been functioning in Kerala more than half a century. Several micro-financial institutions were established in 1970 and are still working successfully. Interest Free Association Coordination Committee was established to guide the interest free establishments in the state. Nearly 2500 self-help groups (SHGs) with a minimum of 20 members under 200 NGOs have been operating and 50000 members are benefiting from the scheme (13). A multi-state cooperative society called 'Sangamam' and portfolio management funds like 'Secura Investment Management Pvt. Ltd' are also functioning in Kerala. Recently, 'HalalFayidah', an interest free cooperative bank launched its operation in Kannur (11).

Enough provision for interest free finance and investment in infrastructure is relevant in Kerala. Asset backed Interest free bonds known as '*Sukuk*' provide funds for long term investment. This tool is used in a number of developing and developed countries which constitutes 17 percent of global interest free Islamic finance assets. It is the second largest contributor to the Interest free Islamic finance industry's assets, worth USD 426 billion in 2017 covering 19 countries (9).

'*Sukuk*' having larger market as it targets both sharia and conventional investors and there is no bubble as all '*Sukuk*' issuance are backed by a certain asset and is the most proper instrument for infrastructure financing (14). '*Sukuk*', '*Mudaraba*' (Capital Financing), '*Musharaka*' (Partnership), '*Murabahah*' (Cost plus profit sale), '*Ijarah*' (Leasing), '*Ijara-wa-iqtina*' (Leasing+product), '*Bay al-Salam*' (forward purchase), '*Bay Bithaman Ajil*' (murabahah+installment), '*Istisna*' (price is paid progressively) and '*Qard Hasan*' (benevolent Interest free loan) are major interest-free finance schemes having wide scope in the infrastructural development during the post flood reconstruction of Kerala.

Another important scope in the expansion of Interest free financial system for the reconstruction of Kerala is the Corporate Social Responsibility (CSR) funds which include charity, Zakat and Qard al-hasan (benevolent interest-free loans) disbursed by these institutions mainly for the development of social infrastructure. Overall, the interest free Islamic finance industry saw a total USD 518 million of CSR funds disbursed by 253 Islamic financial institutions. The top ten institutions accounted for 56 percent of total funds(3).

Conclusion

Globally, Interest free ways of fund mobilization and asset growth show a positive trend. Kerala can attract huge Foreign Direct Investment especially from Gulf countries. It will help to tap the potential resources to rebuild the state economy in this new scenario. Interest free financing will help in providing equity funding for infrastructure projects such as irrigation, dams, roads, electricity, communication projects and social infrastructural projects which are crucial for the rebuilding and development of the state after flood disaster. The discovery of more areas and products in interest free finance will boost the economy of the state in a sustainable way.

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