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بچوں کے لئے مفید دینی معلومات پر مشتمل چار کتابوں کا انعامی سیٹ

مختصر نصاب قرآن

مختصر نصاب حدیث

مختصر نصاب سیرت

مختصر نصاب فقہ

ملنے کا پتہ: فرید بکسٹال اردو بازار لاہور ☆ ضیاء القرآن پبلی کیشنز کراچی لاہور

مکتبہ رضویہ آرام باغ کراچی ☆ مکتبہ غوثیہ پرانی سبزی منڈی کراچی

☆ یکوہ الايتار بالقرب ☆ عبادت میں ایثار مکروہ ہے ☆

- Introduction of saving (voluntary and obligatory) and other services like housing for the target group in addition to finance.
- Bringing the international NGOs in the system of Islamic microfinance in a more extensive way and training the employees of these organizations in the practical fields related to the practical and theoretical aspects of the best international practices and basis of microfinance.

6. Conclusion.

The Islamic microfinance witnessed few achievements, yet its spread is very weak. The experiments in the Islamic microfinance, except the limited banking experiments, were based on a number of models and mechanisms and were not integrated into the financial system as same are undergoing the trials phase, being set up by donors or religious groups and have yet to develop like their conventional counterparts particularly in volume and type. Like their conventional counterparts, the Islamic microfinance experiment used the formulae of *Qard Hassan*, *Murabaha* and *Musharaka* as the main mechanisms as well as the group guarantees and focused on women. And though the programmes of the Islamic microfinance could use funds of *Sadaga*, *Wagf*, and *Zakat* but most of the development of the Islamic microfinance programmes have till to date been financed through donors and government resources. This gave the impression that the Islamic microfinance should be carried only outside the banking system.

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outside the framework of functions of their institutions, hence they lack the enthusiasm for participating or adopting microfinance activities¹³

- Creation of a sustainable model for the Islamic microfinance, or a number of conditions drawn from the institutions which follow good practices. This should be based upon the operational effectiveness, how to face the risks of default, how to find a formula for fieldwork and follow up of borrowers to ensure good performance of the projects and repayment either by way of training the employees or authorizing another specialized entity (which is close to the targeted group) to carry out this work against a pecuniary compensation, and studying experiment of group financing in some Islamic communities, just like Grameen experiment through using *Musharaka* and *Mudaraba* formulae.
- Expanding the use of technology services in microfinance: The Islamic banking system commenced diversifying its client's base by entering the poor people into the financing system. Also expanding the fields of its services which have now started to be applied like smart cards, mobile banking branches, mobile telephones and even utilizing the internet in advancing electronic small size loans.
- Ensuring the transparency of the Islamic microfinance institutions: Through finding and applying international indices in the financial reports of the Islamic microfinance institutions in respect of the accounting aspects. Pricing of services, and financial auditing works. We also suggest funding international base for rating the Islamic and conventional microfinance institutions in order to measure performance and encourage competition which is founded upon effectiveness in granting this type of finance. We see that each country, in which there exist Islamic microfinance institutions, should start testing local assessment and rating basis.
- Broadening the products and guarantees basis (according to the nature and culture of the benefiting communities) and the financing formulae (as to quantity, type and conformity with the nature of the communities) beyond the formulae of *Murabaha* and *Qard Hassan* which presently dominate the Islamic microfinance. Also advancing loans of progressive amounts according to performance of the clients (gradual increase in the loan amount according to performance) provided that the number of times in which the client should be financed should be fixed and this should be regarded as one of the most important measures of the success of the microfinance institutions in their clients coming out of the poverty borders.
- Building up a strong base for the Islamic microfinance based upon the best current international experience and practices in the banking industry in the field of microfinance. And also creating cadres which are qualified to work in the field of Islamic microfinance and to conduct distinguished researches for advancement of this type of finance.

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This information is part of the result of the study conducted by Abu Kassawi, Mustafa Gamal El Din, et al, 2007 (See Abu Kassawi, Mustafa Gamal El Din et al, 2007, p. 23).

progressed in the way which serves the targeted group; therefore there is still a lot to be done in this direction.

Challenges of the Islamic Microfinance.

Despite the huge demand for the Islamic microfinance, the banks and financial institutions which apply the Islamic formulae are still slow in meeting it. Most of the Muslims are also staying at the base of the pyramid of the group which is not accessing the conventional financing. The past experience can only be considered as isolated trials in the making of this type of finance. Therefore, the Islamic microfinance industry should prove that it is capable of extending finance bridges to the poor. As explained above there exist many opportunities for this type of finance, but there are as well challenges that require the following:

Support by the governmental regulatory framework which plays a fundamental role in determining the future of the Islamic microfinance. The regulatory framework of the Islamic banks took several dimensions to include all the banking system as is the case in Sudan, whereas there exists a regulatory framework for both of Islamic banks and the conventional banks as in Brunei, Pakistan, Malaysia and Indonesia. In other countries (like Arab Gulf Cooperation, AGCC states), despite the rise of Islamic banks and conversion of some conventional banks into Islamic banks, yet there does not exist a special regulatory framework which is separate from the conventional banks. In the side of the Islamic microfinance, some Islamic countries enacted regulatory laws supporting microfinance i.e. in Pakistan, Sudan, and Indonesia. The Central Bank of Pakistan drew up in 2007 regulations and indicators for establishing microfinance banks and encouraging the offering of this type of finance with the aim of setting up integrated banks form Islamic microfinance and allowing Islamic banks to start Islamic microfinance windows and the conventional banks to establish branches to operate on an Islamic basis. Thailand is also studying the official introduction of Islamic microfinance and selection of the appropriate form for the Muslim community in Thailand, which is estimated to be about 2 million, and which suit their way of living and religious beliefs.

Supporting the current efforts of the Mix Market Database on microfinance through and coordinate with it and providing it with data on the Islamic microfinance from all countries which practice this type of finance.¹²

Granting encouraging incentives initially to the Islamic banks so that they adopt the Islamic microfinance and start forming a financing fund which includes all the banks that work towards realizing this purpose, noting that most of the top officials in the Islamic banks consider microfinance to lie

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There are international data bases for microfinance the most important of which is Mix Market Database (contains more that 1300 microfinance institutions) and Micro Banking Database (contains more than 350 microfinance institutions and also Micro Summit Database (which includes more than 2000 microfinance institutions (see www.mixmarket.org; www.mixmbb.org/en/index.htm; www.microcreditsummit.org

policies had as well specified reference percentages for the contributions of the partners in *Musharaka* formula and also the minimum profit margin for *Murabaha*. They also specified percentages for the financing of this sector that reached 12% of the total portfolio in the last financing policy¹¹. The Central Bank of Oman set up a strategy for microfinance and established a microfinance unit inside the Bank for the purpose of improving position of the bank financing of this sector. The Sudan has taken wide steps in the banking microfinance in all commercial banks through branches thereof, particularly in the rural areas. However, the financing percentage specified by the Central Bank of Sudan is still ambitious since during most of the years as from the end of nineties, the realized percentage of microfinance was less than 2%, and at an annual average of 3.45% during the period 1999-2002 (Ibrahim, Badr El Din and Faris Arbab, 2006). Also some banks like Faisal Islamic Bank and the Sudanese Islamic Bank had founded specialized branches. It was noteworthy that most widely spread experiment of microfinance – Geographically and volume-wise-compared with other banks was the experiment of Saving and Social Development Bank where the average microfinance percentage during the period 1997-2000 reached about 14.2% (does not include financing of Social Development at an average of 8.1% during the same period). This means that the average of the two percentages reached 20.3 compared with the average percentage of microfinance which did not exceed 2% in other commercial banks (Ibrahim, Badr El Din and Faris Arbab, 2006). Among the other successful experiments is the experiment of the Sudanese Islamic Bank in the nineties in the field of "Productive Families" which progressed in great strides in emphasizing the financing by the Islamic Bank to the minimum lower percentage of the poor (Ibrahim, Badr El Din, 2004). These branches of financing the productive families were opened in geographical areas to attract bank deposits from individuals and establishments situated there and then reinvest same basically by way of *Musharaka* formula (and other formulae like *Murabaha* and *Mudaraba*) in small units' family projects. Those branches were characterized by low administrative costs in those areas. The main concepts behind these branches was to avail microfinance at the level of the geographical area only and for the part of the targeted group who have skills for carrying out small size production or service oriented business inside or outside their houses. Users of this finance are not necessarily required to contribute money but only their efforts, administration or their business or depreciation of equipment. This experiment achieved some success by the target groups whose incomes were reasonably enhanced and it had also brought some projects to the bank. However, the experiment was cancelled when the top management of the bank was changed.

It is really very difficult to bring up conclusion, even if general, about the performance of the Islamic microfinance institutions in view of the absence of accurate information and depending upon data related to only limited number of institutions. However, the forgoing survey gives a general glimpse of this activity. The most important thing in these initial experiments in Islamic microfinance is that they set up a methodology for Islamic microfinance which suits the nature of Islamic society. Despite the acceptance of microfinance experiments, same has not

groups as groups including poor people, or target sectors without targeting the poor as the case of microfinance.

¹¹ To know the details of microfinance policies of the Bank of Sudan for the years up to 2006, see Ibrahim, Badr El Din A, and Faris Arbab, (2006).

strengthen productivity and enhance incomes (Unicons, 2006). In the Iranian experience of the interest free loan, some individuals of the society lodge funds in saving and financing institutions which utilize some in small projects. These funds also accept current and saving deposits like banks as these deposits can be withdrawn at any time. The interest free loans fund are utilized in advancing loans for marriage, medical treatment and housing purposes after satisfying certain conditions the most important of which is ability to repay the loan during one to two years and a guarantor should be there.

Experiment of Al-Hos Mountain in Syria adopted *Musharakah* and *Murabaha* formulae. And the experience of Moasat Bail Al-Mal in Lebanon relied upon volunteers for collecting the repayment of the amount which were financed by way of *Qard Hassan* and *Musharaka* formulae. Mowasat Bait al-Mal has good relations with the targeted group, has a net work of financiers and the repayment ratio is high in view of the assets security and the personal and bank guarantee. Afghanistan experience adopted *Qard Hassan* plus service fees payable in advance and relied upon the group guarantee. Also in Afghanistan experience of the Foundation for International Community Assistance used *Murabaha* formula. There were also other experiments in Thailand, Azerbaijan, and Brunei, Philippines, Kazakhstan, The West Bank, Bangladesh, Indonesia (Islamic cooperatives) and Egypt. Despite the spread of these non-banking financing institutions, they did not cover the targeted poor people in the extensive way.

On the other side, the Islamic banking microfinance is still covering a very limited number of experiments which included the experiments of rural banks in Indonesia and the microfinance banks in Bangladesh. The Islamic banks in Bangladesh adopted Grameen Model and the deferred sale formula i.e. that bank purchases the required commodity and sells same to the customer against a profit margin. Also Al-Noor Bank in the United Arab Emirates announced the establishment of a company to extend the services of microfinance, insurance, credit cards and transfer of money on behalf of lower income earners in a way which conforms with the Islamic Sharia Law. In Mali, there is a microfinance bank which is financed by GTZ German Technical Cooperation and KFW (German Financial Cooperation), and uses *Musharakah* formula. In Iran, the Central bank obligates the branches to render the microfinance services to the low income earners so that they can meet their consumption requirements, marriage expenses, repayment of loans, payment of rent, maintenance of houses, medical treatment and educational expenses and purchase of consumer goods through *Qard Hassan*. According to the available data for the year 2008, the number of beneficiaries of these services reached 3 million families (Karim, Nimrah, Michael Tarazi and Xavier Reille, 2008). In Indonesia (microfinance sections in the Islamic banks, Islamic rural banks and Islamic cooperatives) the microfinance uses *Murabaha* and *Musharaka*. *Ijara*, *Mudaraba* and *Qard Hassan*. However, the Sudanese experience is considered the most fortunate and the first of its kind worldwide. It started during the nineties by applying the Financing Policies of the Central Bank of Sudan from 1994/95 which included "Craftsmen, Professionals, and Small Producers, including the Productive Families" among the classes which should have priority in bank financing¹⁰. These

¹⁰ It is clear that the concept of microfinance in Sudan is very wide which includes (as stated in the financing policies) all small size sectors. Banks target, one or all of these

The Islamic microfinance is still in its early stages worldwide. There are only a few Islamic microfinance banks and institutions which headed towards microfinance. According to estimates, the Islamic microfinance covers currently about 380 thousands clients only (CGAP, Microfinance Gateway, 2010), whereas the poor Muslims constitute 35% of the total number of Muslims estimated at 1.2 billions (Asia-Pacific Economic Cooperation, 2008). The UNDP estimated that there exists an opportunity for about 7 millions beneficiaries from Islamic finance and about 19 millions savers (Balake Goud, <http://www.investhalal.org/articles/articles/IslamicMF.pdf>), which means that there exists a big market for Islamic microfinance and there exists also wider opportunities for such type of microfinance to spread in the Islamic countries but the results are less than expectations.

Thinking about the non-banking Islamic microfinance started during the last years⁸ and the first experiences in the non-banking Islamic microfinance to finance individuals and groups were reserved, weak and not continuous as they were isolated and dependent upon the mechanism of interest free loan by way of payments arranged between the two parties (experiment of Yayasan Tekun, Malaysia) to finance targeted poor Muslims who needed capital to start their small projects but they had no previous experience. Also this finance was amalgamated with Zakat to cover defaults of repayment and the group guarantee was utilized just like Grameen experience. Also *Murabaha* formula was used (microfinance experiment in Al-Hodeida, Yemen 1997) and *Mudaraba* formula by way of weekly distribution of profits and bearing by the supporting institution of any loss which may result from default whereas it can terminate the contract concluded with the partner in case of excessive loss. In the case of realizing profits the benefiting party purchases the shares of the small project whereas the financing institution is content with the principal of the loan and the weekly payments. This system encourages non-repayment; leads to manipulation cases and hiding the real profits in the absence of close follow up by the lending party. In Sudan, a large number of social programmers of NGOs (local and foreign), local community organizations, social government funds and rural development projects, advanced loans to small income generating projects as well as loans in emergency, medical treatment, educational and service cases, all under the Islamic formulae, particularly *Murabaha*, *Musharaka* and *Mudaraba*. There are no data on these parties but they were estimated to be at 100 governmental and foreign organizations⁹. This experience is particularly distinguished by its diversity on one side and diversity of the targeted groups on the other side. These organizations grant finance to the refugees and the displaced people in the urban areas whereas the social funds finance the poor persons, the old age persons with limited incomes, the graduates and pensioners. Yet the rural development projects which are financed by foreign bodies are targeting the rural communities which suffered from conflicts, drought, and natural disasters in order to

⁸ The non-Islamic microfinance institutions include the local and international non-profit making governmental organizations, saving and lending societies, in addition to the governmental funds and international donors to rural development projects which avail rural financing.

⁹ For more information on microfinance in the social programs, NGOs and social funds see Ibrahim, Badr El Din A. and Faris Arbab, (2006), and Unicons, (2006).

branches and therefore they do not need a new professional cadre. Moreover, most of Islamic banks have a surplus liquidity in view of the current non-existence of Islamic finance instruments which conform with the market instrument⁷.

Nature And Practices Of The Islamic Microfinance

During the past decades the integrated Islamic banks and the conventional banks which have Islamic branches have extensively spread out. In 2007 the number of Islamic institutions reached about 300 banks, investment banks, and insurance companies with total assets in the amount of US\$ 500 billions (36% thereof in GCC states, 35% in South East Asia and North Africa and 25% in the remaining Asian countries and Africa). The rate of growth of assets of the biggest 100 institutions of them is 27% (The Banker, 2007). Also the conventional branches which apply the Islamic methods in the conventional banks in India, China, Germany, Japan, Switzerland, Luxemburg, UK, USA and Canada have also spread out. This large number of the Islamic institutions has encouraged some of them to enter into the field of microfinance services, yet these services do not measure up with the big number of these institutions. Also during the past years, some of the microfinance institutions started serving the poor in some Islamic countries by offering products which comply with the Islamic principles of finance. These developments led to the appearance of "Islamic Microfinance" with microfinance in one financing institution where the first one offered financial services on the basis of the Islamic faith and the second one entered some of the poor people under the umbrella of the first one.

Microfinance grows at a rate of 15-30% per annum (about 6 billion US\$ annually). Therefore, there exists an opportunity for the private Islamic capital to enter, noting that participation of the private capital is continuously increasing and expected to reach about US\$ 20 billion in 2015 (Standards & Poors's RatingsDirect, 11 March 2008, p. 2). According to the results of the survey conducted by the Consultative Group to Assist the Poor, the number of Islamic financial institutions offering microfinance is 120 representing 0.5% only of the total worldwide microfinance institutions currently serving about 389 thousands beneficiaries only. About 80% of the Islamic microfinance institutions are located in three Islamic countries i.e. Indonesia, Bangladesh and Afghanistan, whereas, according to the Survey, demand for it in Algeria, Jordan and Syria reached between 20-41% (Karim, Nimrah, Michael Tarazi and Xavier Reille, 2008).

⁷ The study conducted by the author covering liquidity in the Islamic banks in Sudan and the Gulf states investigated whether liquidity is affected by changing the system which is based on interest to a system based on profit and loss. The study confirmed that the change in the assets and liabilities of the Islamic bank from conventional to Islamic way has no negative effect on the liquidity of these banks. The study attributed this absence of liquidity at the current date to the absence of investment opportunities and the finance via sales formulae on the assets side and to the large share of current account which has no financial obligation to the bank on the liability side (see Ibrahim, Badr El Din, A., and V. J. Kumar, 2005).

is appropriate for financing the fixed and working capital and the customer can participate in kind. It brings high returns on investment to the bank and the partner. The few international experiences in the field of the Islamic microfinance proved to be successful in utilizing the opportunities of Murabaha (experiment of Islamic microfinance programme in Al-Hodeida, Yemen) and also in utilizing the opportunities of *Musharaka* (experiment of the Sudanese Islamic Bank in financing the productive families).

- The Islamic system includes *Zakat*, *Waqf*, *Qard Hassan* and Islamic insurance which can be complementary with (not replacing) the Islamic microfinance in providing other needs like housing and meeting other necessities. It is to be noted that *Al-Sadagat* (alms), *Zakat*, *Waqf* (endowments) and *Qard Hassan* are resources which are appropriate for microfinance because they do not aim at making profit and they are mechanisms for satisfying the consumption needs i.e. not suitable for establishment of profit making project yet they can be utilized as complementary resources to microfinance.
- Contrary to the conventional microfinance, the targeted group of the Islamic microfinance is men and women (the family) because it aims at improving the standard of living families and not only women as is the case in the conventional microfinance.
- Saving, according to the Islamic way, helps utilizing deposits in a profitable way, hence supports the culture of saving among the poor classes which participate in development.
- The existing Islamic banks enjoy some degree of administrative capabilities and efficiency in granting finance on a profitable and sustainable basis but they need to qualify special cadres to administer and practice activities of microfinance.
- The Islamic microfinance includes the Islamic communities in the non-Islamic countries under the umbrella of Islamic microfinance, hence creating a new international mechanism of microfinance is required by these communities.
- Islamic microfinance is suitable for the non-governmental organizations operating in the Islamic countries as finance does not need institutions nor legislations under the Islamic designation. Therefore, its formulae can be utilized in the conventional microfinance without any need for the existence of Islamic banks in the non-Islamic countries⁶. It is noteworthy that the international organizations have successfully applied the basis of Islamic microfinance in a number of Islamic countries.
- The Islamic banks can grant the Islamic microfinance at a lower cost compared with the other microfinance institutions because they operate from the existing

⁶ To show how Islamic *Musharaka* is used by conventional banks to finance small and medium enterprises see Ibrahim, Badr El Din. 1999.

- It does not need strong guarantees because the Islamic system focuses on the operations more than the customer's financial capabilities, as it is the case in the *Musharaka* because this formula of partnership in profit and loss is the best invisible security for microfinance and the customer does not have to pay against risks of loss. And since the Islamic system basically depends upon the principle of partnership then any request by the bank for a guarantee shall be a guarantee against cheating or procrastination in repayment and not to cover the risks of loss. The mostly used guarantees in the Islamic microfinance institutions are personal guarantees of a third party supported by a cheque, guarantee funds, mortgage of movable properties, guarantee funds for loans of the civil society organizations, undertakings of the local community, security of the monthly salary, attachment of savings, mortgage of salaries, incomes and pensions, keep documents in custody, legal undertakings not to dispose of assets etc⁵. The few international Islamic microfinance experiments also confirmed success in utilizing gold as a security which is available, acceptable price wise and successful in encouraging saving and micro-investment of the poor (Ar-Rahnu experiment in Malaysia), (Mohammed, Ali Baharum, 2005)
- The Islamic formulae have no harmful financial dimensions in cases of loss. and using the formula of *Musharaka* in profit and loss does not require strong guarantee, as it does not leave the partner either shackled by debts, or obligates him to pay for any other type of entitlement in the case of loss. The partner does not bear the loss alone. In the formula of *Murabaha* if the customer is unable to commit himself to pay the liabilities due from him, he is granted a grace period without any additional charge.
- It avails the best non-material guarantee: All *Musharaka* formulae avail the best non-material guarantee such as sustainability of the project, credit records of the individuals and the tied follow-up by the granting institution.
- According to the nature of the practicing, the Islamic microfinance is less difficult for customers to recover the debts in cases of failure or delay through the other Islamic ways like granting a grace period without any additional financial charges to the customer.
- Islamic microfinance operates via a number of financing formulae which suit the targeted group like *Ijara*, *Murabaha*, *Musharaka*, and *Mudarabah* and others. And Instead of advancing loans to the poor, which can be utilized for another purpose, the Islamic versions dictate buying the assets or the necessary raw materials or enter with the partner in joint transactions. *Musharaka* version

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The proposed guarantee is widely used in microfinance in the Sudan with a low risk rate, but the loan amount for which such guarantee is accepted does not exceed 10 thousands Sudanese pounds. In a survey conducted by Abu Kassawi, Mustafa, Jamal El Din et al on microfinance institutions in three states in Sudan, it was found that lending against personal guarantee is bank branches covered by the survey represents 75% of the volume of microfinance loans in these institutions. Moreover, the percentage of portfolio exposed to risk was 30% and (0-17%) if supported by a post dated cheque (Abu Kassawi, Mustafa Gamal El Din et al, 2007).

- (2) it should build up permanent institutions which are financially and socially transparent and working integrally with the country financial system
- (3) The role of government should be limited to helping in establishment of these institutions and not rendering the services, and role of the donors should be complementary in this direction and not competing with them.
- (4) focus on the corporate side of the supporting institutions
- (5) Interest rates should be rewarding for increasing the supply of loans (Consultative Group to Assist the Poor (CGAP)2004).

These principles, as I see them (in addition to the need for diversifying the mechanisms of microfinance), are summarizing the most important points of weaknesses which should be taken into consideration for developing the experiment of enhancing its effectiveness and the speed thereof.

Why Islamic Microfinance?

In the field of diversification of microfinance mechanisms and treatment of some of its imperfections, we see that it is important to give serious consideration to Islamic Microfinance at a world-wide level. As a result of religious reasons or in view of the weakness of the conventional microfinance in confronting the poverty issues, there were talks for adopting Islamic Microfinance as an alternative. The proposal to expand the base of Islamic Microfinance was not the first one world-wide (Karim, Nimrah, 2008, Abdul Rahim Abdul Rahman, 2006, pp. 38-53, Balake Goud, 2010), and it was not unusual for Islamic finance because the first experiments of Islamic finance in Egypt were in the field of microfinance (Mit Ghamr experiment), which aimed at rural development, treatment of poverty and expanding the saving base. In the other side, the Islamic Development Bank—the biggest Islamic banking institution—has greatly understood this new trend and acceptance of Islamic microfinance as a strategic option in the framework of the development of the Islamic banks. Also the Bank established a fund, for developing microfinance, in the amount of US\$ 500 million, and the Consultative Group to Assist the Poor created a data base on it. And despite acceptance of the conventional microfinance in the Islamic societies till today, its continuation can not be forecasted in view of its conflict with the belief of these societies. Moreover, Islamic microfinance advances benefit not only to this section of the poor, but also to the other non-Islamic microfinance institutions. Following are among its most important advantages

- It amalgamates microfinance into the Islamic finance and builds up social financial institutions which enjoy financial sustainability and transparency and it integrates with the official financial system of the country. It also builds up joint bridges between the Islamic banks and the microfinance sector.
- It considers treatment of poverty as part of its social responsibilities (like social justice and equitable distribution of wealth, and incomes) and it applies objectives of the Islamic banks in execution of the principle of becoming a successor over poverty in respect of microfinance whereas it follows the free market system which guarantees sustainability.

Pakistan and Yemen (Microfinance Information eXchange; cited in Karim Nimrah et al, 2008), as ways of conventional microfinance do not meet their requirements. Also about only 2% of the loans under microfinance umbrella were made under Islamic modes of finance during 2006 in Islamic countries like Indonesia and 3% in Syria (UN Program in Alhos Mountain), (Karim Namrah, et al , p.7).

In the light of the practical results and studies we see that microfinance in its totality:

- (1) Can not work to solve all problems of poverty in the world and is not suitable for all societies nor for all sections of the poor people. However, if that was possible in some of them, it should not be by one unified mechanism in view of the cultural and social differences in these societies. An example for this is Grameen Experience which proved not to be replicable in other societies.
- (2) It started with a mistake when it did not follow the market methodology in respect to determining supply and demand and costs of finance.
- (3) It was dominated by the international institutions which give finance at lower interest rates that distorted the local microfinance market, and worked against the efforts of the commercial banks (Muhammad Yunus and Karl Weber, 2007). Perhaps the best institutions which can be successful in such work are commercial banks, because the commercial banks would advance microfinance as part of their profitable activities with some social care which will not considerably reduce the profit objective.

Despite the international accomplishments which were realized during the past period in drawing the attention for the importance of microfinance and creation of commercial sector for it, there are still several issues which should be confronted so that this type of finance can work to meet the huge and increasing demand for same. Perhaps the most important matter in this context would be the principles declared by the Consultative Group to Assist the Poor, which were confirmed by the Summit of the Group of Eight in 2004. These principles can be considered as a matrix of best practices in the field of microfinance because they summarized to a great extent the path of microfinance, and indicated the main aspects of weaknesses as well as the basic principles upon which microfinance should be founded. These principles can be summarized as follows:

- (1) Insufficient donor support.
- (2) Weak supervision over the institutions
- (3) Weak administrative capabilities and absence of effectiveness of financial institutions
- (4) Absence of methods of rural financing (Wikipedia.org/wiki/microfinance)

In respect of the institutions which grant finance, these principles referred to the necessity that:

- (1) microfinance should cover its cost

increasing number of the poorest group since 1997, this means that microfinance is no longer going along with the increase in the number of poor people. The future estimates indicate that this industry needs not less than 10 times the financed amount (25 billion US Dollar) to cover all the needy people (Deutsche Bank Dec 2007)

The ardent supporters of microfinance have so far failed to present irrefutable scientific evidences that microfinance has accomplished its main objective i.e. eradication of poverty in a regular manner. However, the question which remains is: why has microfinance not accomplished its expected objective up to now? The reason is attributed to several causes, which include the studies conducted so far.

Most of the researches and studies assessing performance of microfinance lacked guidance. They were restricted to supply side only (way of advancing microfinance, type of rendered services and repayment) and did not cover, with some extent, the side of demand for finance as well as the social impact of finance. The studies and researches of microfinance focused on studying the groups and presented some facts, but did not compare between the financed customers and non-financed ones, and the outcome of finance for those who had been financed compared with the period before finance (outcome before and after finance), and the number of financing rounds needed by customers as to manage without the same, and the other types of questions that need a specialized scientific methodology. The studies and researches in microfinance are up till now of a weak standard and suffer from fewness and weakness of methodologies of scientific research for assessing performance of microfinance or studying the demand side thereof. And despite the fact that the studies which were conducted were in fact quantitative studies, yet they relied upon collecting weak and doubtful and incomplete information and data to conduct limited case study. They did not revert to assess success of these cases from time to time. Yet the results thereof were mixed as some simple arrived at limited success of the performance, some did not arrive at a result confirming that microfinance had treated poverty successfully and some came up with limited results. Those studies did not answer fundamental questions in the passageway microfinance e.g., what is the effect of microfinance? What is the effect of saving projects of microfinance and the sustainability of the granting institutions? What is the return on capital in the microfinance projects? Why many microfinance projects do not grow? How can the poor people face the risks, what are their point of view regarding interest rates or cost of funding?

These studies focused only on one method of granting microfinance (conventional way), and they did not consider the Islamic microfinance as an alternative or complementary to the conventional method, particularly in the Islamic societies world-wide⁴, noting that 44% of those dealing with the conventional microfinance worldwide belong to Islamic countries like Indonesia,

⁴ According to estimates about 72% of population in Islamic countries with the majority of Muslim, countries have no access of formal finance, see, for example, Karim, Nimrah, Michael Tarazi and Xavier Reille, 2008,

microfinance projects and mechanism thereof in addition to some subjects which we deem necessary for the work of Islamic microfinance to meet the increasing demand for it.

Has the Conventional Microfinance Fulfilled its Main Objectives?

The conventional microfinance is considered as an opportunity for doing banking among the poor but not a treatment of poverty. It is a social finance which combines finance with developmental assistance. There are now more than 7000 establishments which render microfinance to about 24 million beneficiaries worldwide (Mohammed Aliyu and Hassan Zubair, 2008). The main differences between the analysts regarding microfinance are due to two basic matters: i.e. can microfinance be basically considered as a mechanism to eradicate poverty? And has the previous experiences proved to be an actual success in realizing objectives thereof? Some see that it is effective as indicated by some successful international experiences, whereas others see that it needs radical reforms and a new understanding, so as it becomes effective, and also some other group sees no big benefit can be expected to be brought about by it if the aim from it is to fight poverty. The latter argument is led by professor Malcolm Harper, the international expert in the development of small projects and the most critic of this mechanism as it provides a limited and low quality type of finance, yet he acknowledges that whatever is done by this type of finance is better than doing nothing and it grows with an astonishing speed, and in some instances its performance improved (Thomas Dichter and Harper, Malcolm, 2007).

Microfinance is, according to some, like a miracle for the treatment of the poverty issues, and to the extent that microfinance was drawing significant international interest and attention since the nineties. It was also drawing controversy and differences between the analyst and interested groups. Data and information on the impact of microfinance are limited and conflicting, yet it can be said that up till now microfinance has not covered a significant number of the poor as it was expected despite the elapse of a rather long period since it was brought into application². The number of poor people in the world is estimated to be about 3 billions and about 1.5 billion of them can enter into small size financing loans (Standards & Poors's, 2008). Yet according to other estimates, only half a million of the poor people whose total is estimated at 3 billions, can access the microfinance services in the regular financial sector³. And if we assume that the average required to finance the project of each of the poorest whose total is estimated at 100 million, according to estimate of Microfinance Summit, 1997, is 200 US Dollar and 200 million poorest (according to the estimates of the Objectives of the Third Millennium Summit, 2000, up to 2015), then the world shall need not less than 20 billion US Dollar (40 billion US Dollar according to the estimates of the Objectives of the Third Millennium Summit up to 2015) to pull out the poorest groups from the poverty circle. It is to be noted that funds which were directed towards microfinance worldwide are estimated up till now at about 25 billion US Dollar only. With the

² The Third Millennium Summit aimed at reducing the number of poor in the world by 50% in 2015.

³ The Consultative Group to Assist the Poor, also see Uicons, 2006, p. 13.

Islamic Microfinance: Opportunities & Challenges

By

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Abstract

The purpose of this paper is to review the nature and practices of Islamic microfinance, and to investigate their challenges and future prospects. The methodology of this paper consists of critical review and examination of existing literature and experiences. The results indicate that Islamic microfinance witnessed few achievements. The experiments in the Islamic microfinance, with some exceptions, were based on a number of models and mechanisms and were not integrated into the financial system as same are undergoing the trials phase, being set up by donors or religious groups and have yet to develop like their conventional counterparts. For policy perspective the paper supports the governmental regulatory framework, and also the current efforts of the Mix Market Database on microfinance. Moreover, granting encouraging incentives, creation of a sustainable model, expanding the use of technology services, ensuring the transparency of the Islamic microfinance institutions, broadening the products and guarantees basis, and creating qualified cadres are among the major policies recommended.

Keywords: *Microfinance, Islamic Microfinance, Microfinance institutions, Islamic Banks*

Introduction

Microfinance is the program for advancing small loans to the poor to enable them to enter into income generating projects which will provide them and their families with means of living¹. The definition of the poor does not include the poorest at the lowest 10% who lacks a regular cash flow to serve their debts. Most of the poor who deal with microfinance are women below the lowest level of 50% of the total poor of the society. This paper deals with problems of conventional microfinance and the need for an Islamic microfinance. It also presents some Islamic

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Microfinance Summit, 1997.