Microcrediting in Islam: Islamic Micro-Financial Institutions

Edib Smolo
Postgraduate Student
Department of Economics
Kulliyyah of Economic & Management Sciences (KENMS)
International Islamic University Malaysia
P.O Box 10, 50728 Kuala Lumpur Malaysia
hfz_edib@yahoo.com

ABSTRACT

Millions of people in developing countries are faced with a problem called poverty. Most of the Organization of Islamic Conference (OIC) countries belong to the undeveloped or the least developed countries group. Only few of them (mainly oil rich countries) belong to higher middle income countries group or high income group. Microfinance is seen as a "new paradigm" for bringing about development and eradicating poverty. Microfinance, which is the provision of small amounts of credit to the poor who is usually outside the formal banking system, is attracting growing attention from the World Bank and regional development banks. Conventional microfinance institutions (MFIs) already exist for a couple of decades and have been playing a great role in helping the poor achieve higher income which, later on, led to the higher standards of living. Islamic MFIs are infants of the Islamic banking and finance, which are yet to be developed fully. Currently there is a very small number of microfinance institutions which are operating based on Islamic principles and beliefs. This paper is addressing the issue of Islamic MFIs, their theoretical framework and implementation. It is believed that Islamic MFIs could play a huge role in poverty elevation throughout the Muslim world. Financing modes, such as mudharabah, musharakah and murabaha - among others, could be used by Islamic MFIs. These modes will be explained in the paper using appropriate examples. It is argued that the Support of already existing Islamic banks and Islamic Development Bank (IDB) is crucial for Islamic MFIs to succeed.

1. Introduction

Fighting poverty is not only the goal of 21st century world, but it is a continuing fight since the beginning of this world. Islam recognizes that everybody should have secured basic needs and enjoins the rich members of the society to help those in need. In other words, Islam is not synonym for poverty since Islam strives for the betterment of its followers. The same can be concluded from the available texts in *al-Qur'an* and *Sunnah* as the main sources of Islamic Law (*Shari'ah*). During his lifetime, the Holy Prophet Muhammad (peace be upon him) asked for Allah's protection from the idolatry and poverty saying: "*O Allah, I seek Your refuge from poverty, insufficiency and lowliness"* (Abu Dawud). He (peace be upon him) linked poverty to disbelief: *"Poverty is almost like disbelief in God"* (al-Bayhaqi). Having said that, we can see that Muslims should strive their best to fight against the poverty at all levels, since the poverty is a threat to a man's belief, social security and stability.

The most of the Organization of Islamic Conference (OIC) countries belong to the undeveloped or least developed countries group. Only few of them (mainly oil rich countries) belong to higher middle income countries group or high income group. For these reasons more attention should be paid to poverty alleviation from an Islamic perspective. In order to solve (at least partially) the problem of poverty we have to go to the grass-roots of the problem. One possible way to tackle this problem would be the introduction and implementation of the microfinancing techniques based on Islamic principles.

For last couple of decades, conventional microfinance institutions (MFIs) have made a tremendous impact in poor countries (e.g. Grameen bank in Bangladesh) and their presence is felt and recognized throughout the world. Islamic economics is a young discipline and still in the process of development, therefore, it is not surprise that Islamic microfinance institutions (IMFIs) have not fully developed yet. Steps have been made towards the establishment and development of IMFIs, but there is a great room for improvement. The MFIs are seen as a new approach to fight poverty and bring about development. It is for these reasons that this paper is focusing on the potentials of these MFIs from an Islamic perspective.

1.1 The importance of the study and rationale

Conventional microfinance institutions (MFIs) already exist for a couple of decades and have been playing a great role in helping the poor achieve higher income which, later on, led to higher standard of living. Islamic MFIs are infants of the Islamic banking and finance, which are yet to be developed fully. Currently there is a very small number of microfinance institutions which are operating based on Islamic principles and beliefs. The literature on the topic is very scarce and there are many areas to be explored from an Islamic perspective.

It is for these reasons mentioned above, the author believes, that we have to pay attention to the microfinance in Islam. There are great potentials in microfinancing that should be explored by Muslims. Many scholars (even layman) indicate to the problem of poverty within Muslim *Ummah*, but very few have laid down any suggestion on how to approach to this problem. Microcrediting may not be *the* complete solution of such complex problem like poverty, but it is definitely part and partial of that solution. Since the problem of poverty lies in the grass roots of our society, we have to start from the very beginning – and that is the grass roots.

This research is meant to contribute to the very scarce literature on the topic by analyzing, summarizing and critically reviewing the existing materials. It will add to the knowledge on microcreditng/microfinancing by elaborating available alternatives from an Islamic point of view.

1.2 Methods of study

In this paper, the author is trying to review the existing written material on the topic from an Islamic point of view and to make a very brief comparison with its conventional counterparty. The methodology used for this study is qualitative in nature. This means that the author will mainly use available resources in library and online databases. Moreover, the available articles from the daily newspapers, magazines, seminar/conference proceedings, and unpublished works will all be used when available and appropriate. Furthermore, due to space constrains and non-accessibility to the relevant data, this paper will be more theoretical and descriptive in nature.

1.3 Outline

The study is divided into four parts (excluding introductory part). First part will consist of literature review. Major works, articles and papers will be reviewed in order to get clearer picture on the topic. In second part we are going to see what is meant by microfinancing; how is it defined; and how it is functioning. A brief analysis will be undertaken and the comparison between Islamic and conventional MFIs will be elaborated. The main differences and similarities will be highlighted. Third part gives some examples where and how Islamic modes of finance could be implemented in Islamic MFIs. The last, but not the least, the fourth part is left for the author's concluding remarks and the suggestions for the way forward.

2. Review Of The Literature

In this section we will try to review the available literature written on Islamic microfinance institutions (IMFIs). The focus will be given to those studies which dealt with the microfinance institutions (MFIs) from an Islamic perspective. Only where necessary and for the sake of comparison, we will refer to the studies done on the conventional MFIs.

Despite the growth of Islamic banks in size and complexity, little research has been focused on the issue of microfinance in the context of Islamic banks. Even though the microfinancing and microfinance institutions are there for couple of decades, the attention given to these institutions is lacking – at least when we are referring to the Islamic MFIs. The available literature resources on the IMFIs are scarce and in very limited amount. The reason for this phenomenon could be due to a very short history of MFIs and especially Islamic MFIs. The surveys conducted by Kabir and Alamgir asserted that the Islamic NGOs "were late to appreciate the role of NGOs and, in fact, had hostile opinions about the activities of secular NGOs" (2002: 136). This may be the reason why the Islamic MFIs started operating late and did not reach their maturity yet. Furthermore, the studies in Islamic economics, banking and finance are still in their initial stages of development. As stated by Habib Ahmed (2001) these initiatives started in the mid-1970s. During the same period, the initiatives in conventional microfinancing started. Having in mind this newness of Islamic economics, banking and finance, it is not surprise that the researchers, scholars and practitioners have, until recently, overlooked these issues from an Islamic perspective.

Unfortunately, the author is not aware of any thesis or research paper written on this topic. Most of the material used in this study consists of the chapters in the books, articles written in the magazines and journals, some seminar papers and small articles from the newspapers. This shows that the microfinance, from an Islamic perspective, is not very well covered and studied area as is the case of conventional microfinance. Many areas are yet to be explored and explained using the Islamic framework. However, in this section we will try to utilize what we already have and try to summarize it in a meaningful way.

Ahmed (2001) and Otiti (2002) analytically evaluated the nature of Islamic microfinance institutions and compared them with conventional ones. Ahmed (2001) stated three fundamental cornerstones for the establishment of Islamic MFIs. According to him, these three fundamental cornerstones are the theoretical basis, operational framework, and empirical support. It is found that the most of the MFIs have non-Islamic characteristics, since there are interest-based. Apart from that, many MFIs have so called 'social development programs' which are secular in nature and even anti-Islamic sometimes.

Dhumale and Sapcanin (1998) showed the nexus between Islamic banking and microfinance. It clearly shows that the available modes of financing within Islamic banking could be easily adapted to and implemented within the MFIs. In fact "Islamic banking and microfinance programs may complement one another in both ideological and practical terms" (Dhumale and Sapcanin, 1998: 1). It is believed that the format of Islamic MFIs will be similar to that of its conventional counterpart with certain qualitative differences between the two (Ahmed, 2001). According to both (Ahmed, 2001; Otiti, 2002) these differences are: sources of funds, modes of financing, financing the poorest, amount of funds transferred to beneficiaries, group dynamics, social development program, objective of targeting women, work incentive of staff members, and dealing with default.[1] For the empirical part, Ahmed (2001) conducted the survey with the beneficiaries and officials of three Islamic MFIs, namely: Al-Fallah, Noble and Rescue, from Bangladesh. The empirical evidences show that the above mentioned IMFIs performed relatively well when compared to the well-established conventional MFis in terms of profitability and efficiency. The total profit of all three IMFIs is positive. Operating profit is also positive except for Rescue. IMFIs are not free from problems and inefficiencies. Therefore, Ahmed (2001) suggests that new financial instruments should be used since the main mode of financing (i.e. *bay' mu'ajjal* or BBA) has been diluted. Al-Zamzami and Grace (2003) and Dhumale and Sapcanin (1998), in their studies, found out that there are three widely used Islamic modes of finance (i.e. *mudāraba, mushāraka* and *murābahah*). Out of these three *murābahah* mode of finance

[1] Table 2 from Ahmed (2001, p. 41), highlighting the differences between Islamic MFIs and conventional MFIs, is reproduced in the appendix to this paper

is the most preferable by Islamic MFIs because approximately only 20% of HMFP (Hodeidah Microfinance Programme) clients keep books (Al-Zamzami and Grace, 2003).

Two articles regarding the microfinancing were focused on *mudāraba* and *mushāraka* modes of financing (Al-Harran, 1995, 2002). However, the problem for implementing these modes, as was the case in the study, was that clients did not have enough capital to join this project. Since there is problem of lack of funds, Ahmed (2001) invites the Islamic Development Bank (IDB) to support IMFIs by providing the funds especially at the initial stages.

The potentials of IMFIs are great, according to Ahmed (2001) and Otiti (2002), but the growth and sustainability of them depend largely on availability of funds and efficient operations. Besides IDB funding, in order to get more funds, Islamic MFIs can turn to the alternative sources of fund like *zakāh,* charity and *waqf* (Otiti, 2002; Ahmed, 2004). It is believed that the *zakāh,* charity and *waqf* can be successfully integrated into the microfinance programs for the sake of poverty alleviation. Kabir and Alamgir (2002) concluded that this inadequacy of MFI resources is the limitation for further expansion, "both horizontally and vertically" (p. 132). It is believed that Islamic law allows room for financial innovations and that Islamic financial system can offer alternatives in microfinance industry (Dhumale and Sapcanin, 1998).

The paper by Kabir and Alamgir (2002) showed the high presence of conventional NGOs in general, and MFIs in particular in Bangladesh. Although the majority (if not all) of the rural people in Bangladesh are Muslims and they adhere to the basic tenets of Islam, among which is the prohibition of Islam, we can see that they are trapped in the web of *riba* with the introduction of the conventional MFIs. There is a great need for the alternatives such as the Islamic MFIs or the Islamization of microfinance industry. The bright side of this paper is that it discusses the Islamic NGOs, the topic that has not been covered by other studies. But the negative side of it is that the allocated space for Islamic NGOs should be much bigger.

Akhtar (n.d.) believes that, in case of Pakistan, *mushāraka* can play significant role within micro-industries. The paper shows that the micro-industries "account for 81% of industrial labor force and 28.52% of the value-added of manufacturing sector. They contribute 5.11% of GDP compared to 12.81% of large-scale industry" (Akhtar, n.d.: 7). A very nice framework for commercial banks is elaborated in this paper. According to this framework a number of small firms should come together and form the group. This will increase the interest of the banks, because now they will deal with one case consisting of several small firms, instead of dealing with each and every one of them. This will reduce transaction cost and default risk. At the same time, it will be easier for the bank to monitor account of the group rather than to monitor every firm individually. Furthermore, the joint assets and security of the group can easily meet the collateral requirements of the banks. This approach of co-operative financing is initiated by Co-operative Societies Act 1925, but has not been utilized, as stated in the paper, because of "socio-political and bureaucratic reasons" (Akhtar, n.d.: 10).

Despite this problems faced by the *mudāraba* and *mushāraka*, the paper asserts that these modes of financing are having bright future in Pakistan. In order to facilitate *mushāraka* financing the appropriate conditions are stated by the author. They are: (i) legal regulations; (ii) financing in the framework of co-operative; (iii) scraping of discriminatory regulations; and (iv) introducing the culture of book-keeping and fair business practices.

3. Analysis And Critical Elaboration

3.1. Definition of microfinance

Even though the microfinance is meant to be for the masses, yet its vocabulary can be understood only by professionals. Going through the available literature on Islamic microfinance/microcrediting,[2] the author did not come across any clearly stated definition of the term from an Islamic perspective. All the writers on the topic have taken it for granted and moved directly into the discussion without even trying to define it. It is believed that Islamic microfinance/microcrediting is nothing more than the conventional microfinance less the interest. For the sake of readers we will cite some definitions given by some authors, which are more or less coming from western perspective.

Mushtak Parker defines microfinance as “the provision of small amounts of credit to the poor who usually fall outside the formal banking sector…” (1998: 8). Microfinance is “the provision of loans, savings, insurance, and other basic financial services to low-income populations” (Imboden, 2005: 67) and in another study it is defined as “a self sustaining means of helping people start or expend a small business.”[3] It is “the business of lending small amounts of money to the poor, taking deposits from them, transmitting money on their behalf and insuring them.”[4] “Microcredit” is “lending small sums to poor people to set up or expend small business”.[5] Asian Development Bank defines it as "...the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their micro-enterprises" (Cited in Conroy, 2002: 2). In overall, the microfinance is the process of providing small amounts of money, mainly to very poor families, in order to help them start with or expend their existing businesses.

What is the difference between microfinance and microcredit? Going back to the definitions just given, we can see that both of these terms, microfinance and microcredit, mean more or less the same. The only slight difference between them is that the former refers to loans, savings, transfer services and other financial products, while the latter refers to a small loan only.[6]

From the given definitions above we can point out the followings:

i. There is almost ‘invisible’ distinction between microfinance and microcredit.
ii. Money is a ‘loanable asset’.

---

[2] Here the author is referring to the both, microfinance and microcrediting, as both are not well defined from Islamic point of view. However, the distinction will be made between the two terms later in the paper.
[3] “Starting over”, *The Economist* (Print Edition), December 14, 2005.
[4] “Small sums, big issues”, *The Economist* (Print Edition), November 18, 2004.
[5] “Africa’s women go to work”, *The Economist* (Print Edition), January 11, 2001.
[6] For more details refer to http://www.microfinancegateway.org/

iii. It is meant for business/investment purposes and not for personal consumption.
iv. The targeted group is poor members of the society (mainly women).

Since our interest here is Islamic microfinance we will try to give the Islamic perspective on the topic and try to define it within Islamic framework. Islamic microfinance can be defined as *an investment of capital (in cash or in kind), based on Islamic modes of finance, to the poor entrepreneurs in order to help them start or maintain their businesses.*

3.2 The role of Islamic MFIs in poverty alleviation

We have already noted that the poverty is overwhelmingly present in the Muslim world. Majority of the Muslim countries are among the poorest countries in the world according to some indicators and researches such as *World Development Indicator*. Otiti stated:

> "The Muslim countries dominate the list of the least Developed countries of the world, bugged down with, amongst other things endemic poverty with the gap between the developed and developing countries and that between the 'haves' and 'have nots' within the Muslim countries, getting ever wider and wider." (2002: 1)

Having said this, it is clear that the due attention has to be paid to the problem of poverty. Muslims have to come up with a formula for poverty alleviation. This paper is trying to present one such formula that can be used in dealing with this problem at least to some extent.

3.3 Rationale for IMFIs

Within the current financial system the poor are not able to meet the requirements, put forward by commercial banks, needed in order for them to get the loans and fulfill their dying needs for money and capital. On the other hand, the rich people have enough resources to fulfill these requirements easily. Because of that they can easily raise money and capital at the market. Here, the MFIs should come in. It is their role to cater, what is called, "chronic need", (Hassan and Alamgir, 2002: 114) of the poor for capital.

The best example should be the famous Grameen Bank, the Winner of the Nobel Price for Peace for 2006, which throughout its functioning proved that poor people are bankable and reliable clients. The Grameen Bank, together with its founder Prof. Muhammad Yunus, helped millions of the people in Bangladesh only. Indirectly, they helped millions more throughout the world through the microfinance institutions that followed their model. This innovative approach to the financing of poor has been bearing fruits for last couple of decades. The time is ripe for Islamic financial institutions to take a serious part in this global programme and play a crucial role in helping Muslim populations to get out of the vicious circle of poverty. The later we join the game the less fortunate and helpful we will be.

Islamic economic system should be based on principle of brotherhood and should implement cooperative approach towards the Muslim populations. Without taking part in alleviation of poverty in Muslim worlds, Islamic banks and financial institutions are not fulfilling the above stated principles. Furthermore, they are not offering any alternatives to the Muslims and they are left without choice to indulge themselves in *riba* (interest).

3.4 The modes of Islamic MFIs and their linkage to Islamic Banking

The modes or the financial instruments which are and could be used in Islamic MFIs are mentioned and listed down in all major articles on the topic. These modes, among others, are as follows: (i) *Mudāraba* (profit and loss sharing, PLS); (ii) *Mushāraka* (partnership); (iii) *Ijāra* (leasing); (iv) *Ijāra wa iqtinā*; (v) *Qard al-hasan*; (vi)*Bay' murābahah*; (vii) *Bay' salam*; and *Bay' mu'ajjil*.

However, when it comes to Islamic MFIs, the story is the same as for the Islamic banks. Both of them (i.e. Islamic MFIs and Islamic banks) are having all these instruments available for operations, but still they are operating mainly on one financial instrument. This financial instrument is *bay' mu'ajjil*.

The reasons why *mudarabah* and *musharakah* financing modes are not popular for Islamic banks, mentioned by Al-Harran (1995), are as follows:

a. Lack of honest and trustworthy entrepreneurs.
b. Lack of medium and long time funds which are needed for *mudarabah* and *musharakah*.
c. Long-term financing involve higher risks and there is a lack of qualified personnel to undertake the operations.

3.5 Islamic MFIs vs. Conventional MFIs

In this section we will try to make a comparison between the Islamic MFIs and conventional MFIs. Both of them are there to serve the needs of the poor who are not qualified for and/or are not able to fulfill the requirements put forward by banks (i.e. collateral). It is for this reason that MFIs are established at the first place. As we will see from the following discussion, the operation of Islamic MFIs and conventional MFIs are very much similar. However, the due distinction exists, even though currently this distinction is very small (in my opinion) due to the heavy reliance of IMFIs on BBA mode of financing.

Conventional MFIs follow the well known example of the Grameen Bank from Bangladesh, which is considered a pioneer of microcrediting. This model is interest-based model. The proposed and currently used model for Islamic MFIs is also based on Grameed model, but excluding interest and implementing Islamic modes of financing (e.g. *mudārabah*, *mushārakah*, *bay bithaman ajil*, etc.).

Habib (2001) and Otiti (2002) listed down the following characteristics when comparing conventional MFIs with Islamic MFIs. According to them, Islamic MFIs are different from conventional MFIs in the followings:

a. <u>*Modes of financing*</u>: As we have already stated earlier, conventional MFIs are interest-based while Islamic MFIs are interest free. Islamic MFIs operate through several Islamic modes of financing such as: *ijārah, ijārah wa iqtina, murābaha, mushāraka, istisna, bay-salam* and *bay-mua'jjal*.

b. *Sources of financing*: Conventional MFIs get the funds mainly from foreign donors (Otiti, 2002). They also get the funds from the savings of the clients and external funds (Habib, 2001). Islamic MFIs, apart from these sources of funds, can get the funds from religious institutions such as *waqf* and *zakat*, etc. (Habib, 2004).

c. *Financing the poorest*: Even though the microcrediting is meant for the poor, still the poorest population is left out by conventional MFIs. However, this is not (or should not be the case) within Islamic MFIs. IMFIs could integrate the institution of *zakat* and other voluntary charity (*sadaqat*) to provide the financing for the poorest. This could be done through *qard-hasan*.

d. *Amount of funds transferred to beneficiaries*: It is a practice of conventional MFIs to deduct an amount from the loan before disbursement. This deduction is for different reasons such as group and emergency funds. However, the interest paid by a beneficiary is calculated on total amount. Under this scenario the effective interest rate paid by beneficiary to the MFI increases. Furthermore, there is a risk that the funds, once transferred, will be diverted to non-productive uses. Under the IMFIs, there is no such deduction. Here the total amount is used to purchase the good and that good is transferred directly to the beneficiary. By doing so, the risk that the funds will be used for non-productive uses is minimized.

e. *Target group*: While conventional MFIs are targeting women, Islamic MFIs are targeting family as whole. The objective of targeting women in conventional MFIs is to empower them. It is believed that women use funds more productively and this increases their incomes. Even though in IMFIs the majority of beneficiaries are women too, the reason for choosing them is very different from those of conventional MFIs. According to IMFIs, it is easier to deal with women since they are more convenient and efficient. Furthermore, they are more available and can attend the weekly meetings.

f. *Social development program*: Social development program of conventional MFIs is secular or un-Islamic in nature. The behavioral, ethical and social aspects of secularism are a cornerstone of conventional MFIs. On the other hand, IMFIs are based on Islamic Law (*Shari'ah*). It promotes religious aspects of life.

g. *Work incentives of employees*: Money is the main motive of employees of conventional MFIs, while the work incentives of employees of IMFIs are monetary as well as religious. In IMFIs the work is seen as a part of religious duty (i.e. to help those in need).

h. *Liability of the loan*: The recipient is solely responsible for the loan under conventional MFIs. However, in case of IMFIs, it is both recipient and spouse who are responsible for the loan since IMFIs are targeting the family as a whole.

i. *Dealing with default*: In case of default, conventional MFIs are using group and center pressure. If this is not working they use threats and in extreme cases the assets are sold. IMFIs encourage the group members and center to assist in paying the debt. This is done through the spirit of brotherhood that is promoted through Islamic teachings. (Qur'an*, Al-Hujurāt*:10)

3.6 Operational Framework of Islamic MFIs

Here we will try to identify how Islamic MFI is operating. As we have said before, the operation of IMFIs is very much similar to that of conventional MFIs. Following is a brief description of the way how conventional MFI is functioning.

In order to get a loan from IMFI or any other microfinance institution the client or beneficiary has to be poor. How a 'poor person' is defined can differ from one institution to another. For example, if a person has less than 0.4 acres of land and must not have more than one acre of assets to be eligible to get credit from the Grameen Bank (Habib, 2001). In addition to that, person must form a group of 5-10 like-minded people with similar socioeconomic status in order to get credit. Male and female groups are formed separately. Usually these groups are trained for some time to become familiar with the rules and procedures of the MFI. Each group would select its own chairman and secretary.[7]

Members of the group are required to attend weekly meetings. All members are responsible for paying their installments on time. If any one of them fails to do so, the rest of them will not be able to get new credit in future. The credit is firstly given to 2 members – usually the poorest two – and if they comply with weekly installments, the credit is advanced to the other members in the group.

The credit that is extended by MFI is of small amount and it is given at market rate of interest. The loan is usually paid in weekly installments.[8] Finally, it is worth noting that conventional MFI is transferring money to the poor and not goods.

Islamic MFI has adopted the above described fashion of conventional MFIs as its operation procedures. The main difference is that IMFI is not based on interest but rather it is based on Islamic modes of finance (*bay bithaman ajil* or mark-up sale being the most widely used mode). Under this scenario, a person identifies goods he/she wants to buy and then IMFI buys it on the market. Following the purchase, the goods are transferred to initial person and sold at mark-up price. This brief description is only theoretical, while the practice is a bit different. As is the case with Islamic banks, IMFIs appoint a client as bank representative (*wākīl*), who will buy a good on behalf of the bank. By doing so, the bank minimizes ownership risk (if any) and transfers it to the client. Here, the problem of legal profit arises since there is no *'iwad*[9] (countervalue) that is required for legal sale (Rosly, 2001).

---

[7] The formation of the group may differ from institution to institution. Some institution, such as those in Bosnia and Herzegovina (e.g. LOKmicro), do not request a client to form a group. They simply ask that client to provide two persons as a guarantee for a loan. In case of default, a MFI would contact guarantors and ask for the repayment of the loan.

[8] In case of LOKmicro and other MFIs in Bosnia, the installment is done on monthly basis.

[9] *The Question of 'Iwad (Countervalue)*: This is one of the major objections related to the BBA facilities offered by Islamic banks. It is believed that a valid sale must meet some requirements, namely: there should be no uncertainty (*gharar*) and the equivalent countervalue (*'iwad*) should exist. There are three principal components of *'iwad*, namely: market risk (*ghurm*), liability (*daman*) and value-addition or effort (*ikhtiyar*).

3.7 The problems of MFIs

As mentioned before, microfinance initiative is seen as a new approach to poverty alleviation. It is further seen as an engine for development.

> "Microfinance alleviates poverty as the credit given in successive years is used in productive economic activity(ies) increases the household income and saving and enables it to build up its own capital. Income and saving eventually increase to a level where the household does not depend on borrowed capital. At this stage, the household graduates to non-poor status and becomes a full-fledged microenterprise. This process of graduation is termed by Muhammed Yunus, as the *virtuous* circle of 'low income, credit, investment, more income, more credit, more investment, more income'." (Habib 2001, p. 11).

Many articles praised the success of the MFIs, but there are also some studies that pointed out the failure and problems of these institutions. Some of these failures and problems indicated by Habib (2001) and Otiti (2002) are common for both conventional as well as Islamic MFIs. They are as follows:

i) *Asymmetric information problems*: MFIs usually target women, but in reality, quite often it is the male members of the household who initiate taking the loans and they are the ones who control the use of the funds received by female members. In addition to that, very often the loans are not used for the productive purposes for which it was meant to be at the first place. Once these funds are not used for productive purposes the possibility of defaulting increases.

ii) *Economic viability of MFIs and Lack of funds*: Raising the funds is a crucial problem of every MFI. They cannot attract the deposits as commercial banks do. Due to this lack of fund mobilization and the high cost of administration MFIs may not be economically viable. For IMFIs there is even greater problem which may be contrary to Islamic principles. For example, the funds collected by IMFI are on interest and it has to get certain fixed amount on the investment in order to repay its debt. This puts pressure on IMFI and as result they usually opt for *bay bithaman ājil* mode of financing – discouraging the use of other Islamic modes of financing, namely *mudārabah* and *mushārakah*.

iii) *Low rate of return on investment*: Studies have shown that funds given by MFI may be used in low productivity activities. Furthermore, initial targeting on women by MFIs is another factor for low rate of return as women usually engage in productivities that are yielding relatively low returns.

iv) *Debt trap*: Studies show that a great number of initial beneficiaries of MFIs are caught in debt trap. As they are not able to repay their debts they would take the loans from other sources to pay installments. This keeps them trapped in "a spiraling debt cycle".[10] In case of IMFIs, the repayment is of great concern to them. The reason for this is that there is no penalty (in forms of

[10] Habib., 13.

increasing interest rate on defaults as is the case in conventional banks and MFIs). Due to the lack of penalty there is incentive for the beneficiaries to delay the payments.

v) *Socioeconomic factors of clients*: Due to illiteracy, ethnicity, gender, etc. the skills possessed by beneficiaries are very low. This increases the cost of assessment of projects and monitoring of the use of loans.

vi) *Mode of financing of IMFIs*: From the case studies it is shown that predominant mode of financing of IMFIs is *bay bithaman ājil* (mark-up sale). However, this is not really done in real Islamic sense where the IMFI buys goods first and then transfers them to the clients. What has been observed is that IMFI gives the funds to a client to buy goods. These increases the chances of diversion of the funds and therefore the default risk increases as well.[11]

3.8 Islamic Development Bank (IDB) and its role in Islamic MFIs

Islamic Development Bank (IDB) is the pioneer Islamic Multilateral Development Institution (Otiti, 2002). It was established in 1975 (1395H) with the aim to provide financial assistance to less developed countries. The following countries are main shareholders of the bank: Saudi Arabia, Kuwait, Libya, Turkey, UAE, Iran and Egypt. The main modes of financing used by IDB are leasing, installment sale, equity, *istisna'a*, profit sharing and technical assistance. All the financing of IDB is intended to support the development of small and medium-scale private sector enterprises.

It is for these reasons that the author believes IDB should play a crucial role in developing and promoting microfinance institutions. As an umbrella, IDB should set up the model which would be followed by any IMFI. It can provide the funds for these institutions which will transfer them to the poor for financing small and medium size industries. Furthermore, it could offer technical assistance to IMFIs and help them in their operations. IDB has done a lot and its financial assistance, directly or indirectly, contributed to the poverty alleviation in member countries. However, its potential is not yet attained and there is a big room for improvements to be done. That IDB is on the right track can be seen from its Pilot projects in African and Asian regions already initiated on *"Formulating and Implementing Schemes for Financing Medium, Small, Very Small, and Micro Enterprises in IDB Least* Developed *and Low Income Member Countries"*.

Apart from IDB, Islamic banks could also play a vital role. However, in order to do so they need the legal, social, cultural and administrative support by a respective government and other related authorities. "Islamic banks can join the private sector in conceiving, planning, financing, implementing and operating various schemes of rural development. But the role of government remains supreme" (Khan, 1994: 59).

Some even argue that other institutions and organizations may facilitate the development of IMFIs. Otiti (2002) opines that Islamic MFIs should work hand-in-hand with other institutions which can improve and complement their activities. These, 'other', institutions suggested by this paper are:

(i) Rural investment trusts: These trusts would collect the savings from the rural households and transfer them into different projects in that rural area;

---

[11] The Figures 1 and 2 showing the *real* and *actual* BBA process are shown in the Appendix 2 using home financing example.

(ii) Rural small industries fund: In this case, Islamic banks could collect the savings, whether from rural of urban areas, and invest it in small industries in rural areas;

(iii) Local *zakāh* and unit trusts: These trusts should collect the funds from local *zakah* committees. They (i.e. the trusts) would act as intermediaries to distribute *zakah* funds;

(iv) Mosque-based non-governmental organization (NGOs): These NGOs, based in the village mosques, could be established in the villages and represented by regular attendees to the mosque. Furthermore, these NGOs could act as intermediary between the beneficiaries of micro-credit and the financing institution itself;

(v) *Al-Hisbah*: The institution of *Al-Hisbah* should be revived at local level. One of the main functions of *Al-Hisbah* is to enjoin good and forbid the wrong, supervision of market imperfections and violation of *shari'ah*, adulteration, violation of contracts etc;

(vi) Managing foreign remittances: Having in mind a great number of people living abroad and their remittance of funds to their relatives back home, the IMFI could manage these remittances from abroad and earn a return from these investments.

4. Some Examples Of Implementation of Islamic Modes Of Finance In Microfinance

Going through the literature on Islamic microfinance we have found that IMFIs have been heavily relied on mark-up mode of finance, with exception of Sudanese Islamic Banks (SIB) (Akhtar, 1997). Here we will briefly mention some practical example where and how Islamic modes of finance can be implemented. Many Islamic financial institutions have avoided financing through *mudāraba* and *mushāraka* due to many reasons which are beyond the topic of this paper. However, several banks implemented these modes, more notably *mushāraka*, as their financing scheme.

Islamic microfinance can be implemented in agricultural sector through many modes. *Mushāraka* is a very appealing one in this case. A bank can provide a necessary inputs and services while a farmer can, if available, land, labor and management. This was the practice of SIB (Akhtar, 1997). Profit and loss sharing is also used by Faisal Islamic Bank of Egypt in financing agricultural, industrial and service sectors (Akhtar, 1997).

Mushāraka mutanāqisah is another mode of Islamic finance with a broad range of applicability. It can be used for financing machinery for a farmers or trucks for small entrepreneurs needed for day-to-day business activities. Here, Islamic bank would jointly purchase the necessary machinery and lease it to the farmer. In return, the farmer would pay a rent to the bank for using its shares in the machinery and at the same time pay additional amount in order to redeem the shares of the bank in the machinery.

Ijāra and *ijāra wa iqtinā* could be used in every industry and therefore even in the microfinancial sector. In case of *ijāra*, the bank can buy a machinery, truck or any other tool or equipment need by the farmer an lease it for an agreed rental fee. Using *ijāra wa iqtinā*, the bank can transfer the machinery to the farmer at the end of leasing period. In both cases the necessary conditions, put forward by Muslim scholars, have to be implemented for these contracts to be in line with *Shari'ah*.

Among widely used modes of Islamic finance are *murābaha* and *bay' bithaman ājil*. These modes have proven very useful in financing many inputs in micro-enterprises such as the chemical, biological and mechanical inputs which are essential for current agriculture industry (Gulaid, 1995).

Apart from the above mentioned modes of finance that could be implemented by IMFIs, there are several others like *muzāra'a, musāqah, salām* and *istisnā*.[12] All these modes have their unique features and could play a role in helping the poor finance their way out of poverty.

5. Concluding Remarks

Microfinance has gained a lot of attention from the point of view of conventional economics, as it is seen as a new approach to alleviate poverty and help in the process of development. Conventional MFIs have expended their operations during last couple of decades, while IMFIs are yet to be developed. In this paper we have discussed the theoretical basis, operational framework, and the problems faced by MFIs, both conventional and Islamic with special attention given to Islamic ones.

The theoretical part of the paper, as indicated by previous studies, clearly shows that there is a great potential in IMFIs that can serve the needs of the Muslim poor. IMFIs are richer than their conventional counterparts on the liability side as well as the asset side (Ahmed, 2001). From liability side we can see that IMFIs could use alternative sources of funds like *zakat*, charity and *waqf*. On the other side it could use various financial instruments. Different modes of financing available for IMFIs could be used to meet different needs of the poor beneficiaries. Unfortunately, IMFIs have not yet used many of these additional funds available for them, nor have they used variety of financial instruments. They ended up using *bay*' *bithaman ājil* as the main instrument in their operations. Even this has not been utilized in a real Islamic way, as shown in this paper, since IMFIs are not originally buying the goods - rather they only transfer the money to beneficiaries to do so.

Having in mind the problem of poverty within the most of OIC member countries the author believes that the IMFIs, if implemented properly, could increase employment, alleviate poverty, and bring about development. Both, Islamic Development Bank (IDB) in particular and Islamic banks in general, can play an important role in the expansion and operation of IMFIs in member countries. IDB could provide necessary funds and technical support, as well as the training facilities on Islamic aspects of their operations, while Islamic banks could help in conceiving, planning, financing, implementing and operating various projects in rural development. However, for all of this to work we need support and the will of the governments that is currently lacking. As stated by Khan (1994), for Islamic banks to effectively participate in rural development, the changes in the financial system have to be done. This includes the changes within the legal framework for Islamic banks. Further, the financial sector should be deregulated and liberalized. The export oriented industries should be promoted. Due attention should be

[12] Due to the space constraints we are not able to explain all of these modes here. However, for more information you can refer to Gulaid (1995).

given to the infrastructure and training for the private sector as well. Last, but not the least, the government – according to study – should provide fiscal incentives to private enterprises if they are investing in rural areas.

Finally, more attention should be given to Islamic MFIs. The potential results, impact and success could be substantiated by empirical study on the subject. This is only some of the areas for further research. The purpose of this paper was to raise the awareness of the Muslim scholars on the subject and initiate a curiosity within them.

APPENDIX I

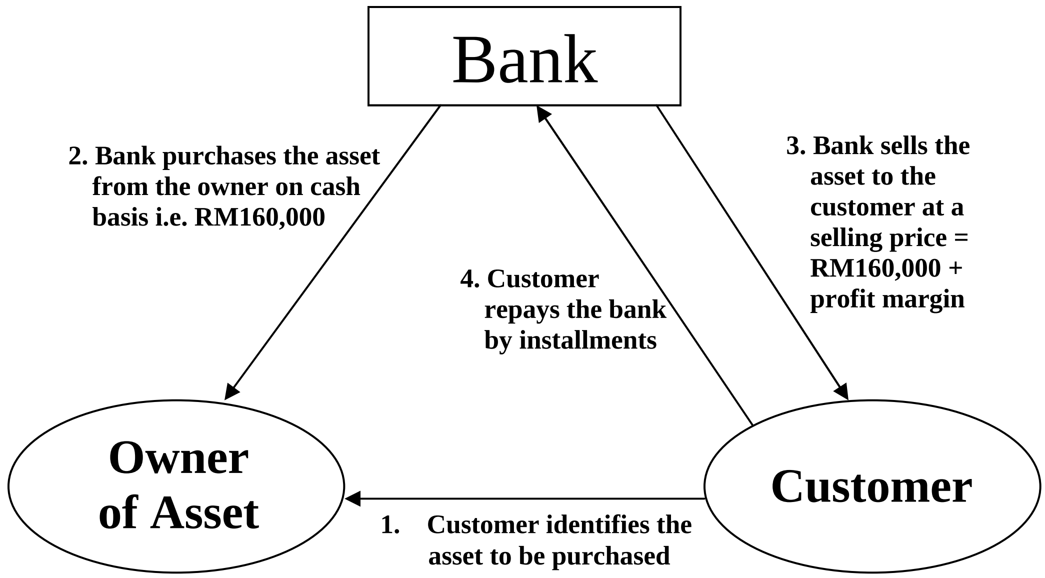
Table 2
[reproduced from Habib Ahmed (2001)]

Differences between Conventional and Islamic MFIs

	Conventional MFI	**Islamic MFI**
Liabilities (Sources of Funds)	External Funds, Savings of clients	External Funds, Savings of clients, Islamic Charitable Sources
Assets (Mode of Financing)	Interest-based	Islamic Financial Instruments
Financing the Poorest	Poorest are left out	Poorest can be included by integrating *zakāh* with microfinancing
Funds transfer	Cash given	Good transferred
Deduction at inception of contract	Part of the funds deduced at inception	No deductions at inception
Target group	Women	Family
Objective of targeting Women	Empowerment of women	Ease of availability
Liability of the loan (when given to women)	Recipient	Recipient and spouse
Work incentive of employees	Monetary	Monetary and religious
Dealing with Default	Group/center pressure and threats	Group/center/spouse guarantee, and Islamic ethics
Social development Program	Secular (or un-Islamic) behavioral, ethical, and social development.	Religious (includes behavior, ethics, and social

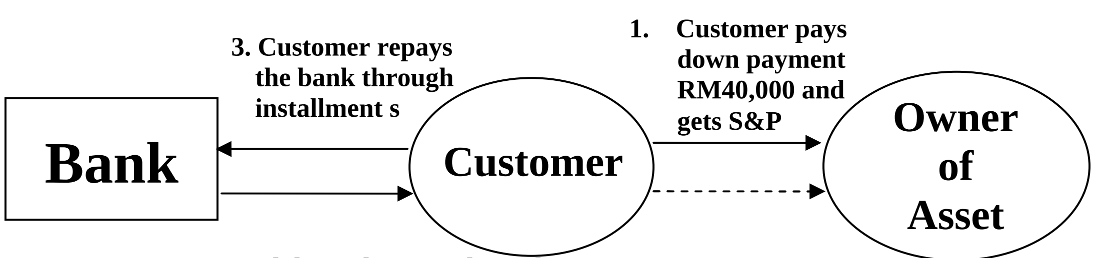
APPENDIX 2

Figure 1



REAL AL-BAI' BITHAMAN ĀJIL
(BBA)

Figure 2



2. Bank buys the asset through the customer for RM160,000 & immediately sells it back to customer for RM352,000

ACTUAL AL-BAI' BITHAMAN ĀJIL
(BBA)

SELECTED BIBLIOGRAPHY

Books:

Ahmad Habeeb. (2004). Role of Zakat and Awqaf in Poverty Alleviation. Jeddah: Islamic Research and Training Institute (IRTI). Occasional Paper No. 8.

Balkenhol, Bernd, (ed.). (1999). *Credit Unions and the Poverty Challenge: Extending Outreach, Enhancing Sustainability*. Geneva: International Labor Office.

Gulaid, Mahmoud A. (1995). *Financing Agriculture Through Islamic Modes and Instruments: Practical Scenario and Applicability*, Jeddah: Islamic Research and Training Institute (IRTI). Research Paper No. 34.

Hassan, M. Kabir and Dewan A.H. Alamgir. (2002). Microfinancial Services and Poverty Alleviation in Bangladesh: A Comparative Analysis of Secular and Islamic NGOs, in *Islamic Economic Institutions and the elimination of Poverty*, ed. Munawar Iqbal, 113-86. Leicester: The Islamic Foundation.

Khan, Muhammad Akram. (1994). *Rural Development Through Islamic Banks*, Leicester: The Islamic Foundation.

Siddiqi, Muhammad Nejatullah. (1981). *Some Apects of the Islamic Economy*, 2nd ed., Delhi: Markazi Maktaba Islami.

Articles, Journals & Research/Working Papers:

"Africa's women go to work". (2001, January 11). *The Economist* (Print Edition).

Ahmed Habib. (2001). "Financing Microenterprises: An Analytical Study of Islamic Microfinance Institutions." *Islamic Economic Studies*, Vol. 9, No. 2, pp. 27-64.

Akhtar, Muhamad Ramzan. "Practice and Prospects of Musharaka Financing for Small Enterprises in Pakistan." *Journal of Islamic Banking and Finance*.

Akhtar, Muhamad Ramzan. (1997). "Partnership Financing of Microenterprises." *Journal of Islamic Banking and Finance*, Vol. 24, No. 12, pp. 1470-1487.

Choudhury, Masudul Alam. (2002). "Microenterprise Development Using Islamic Financing and Organizational Instruments: Modality and Practicum." *International Journal of Social Economics* Vol. 29, No. ½, 119-134.

Dhumale, Rahul and Amela Sapcanin. (1998). *An Application of Islamic Banking Principles of Microfinance.* Regional Bureau for Arab States. UNDP, World Bank.

Gafoor, A.L.M. Abdul. "Meeting the Financial Needs of Muslims: A comprehensive Scheme." *International Journal of Islamic Financial Services*, Vol. 5, No.3.

Imboden, Kathryn. (2005). "Building Inclusive Financial Sectors: The Road to Growth and Poverty Reduction." *Journal of International Affairs*, Vol. 58, No. 2, pp. 65-86.

Parker, Mushtak. (1998). "Credit Where Credit is really Due," *Islamic Banker*, No. 33, pp. 8-9.

Rosly, Saiful Azhar. (2001). *'Iwad* as a Requirement of Lawful Sale: A Critical Analysis. *IIUM Journal of Economics and Management*. 9 (2), 187-201.

"Rural Development and Poverty Alleviation Scheme of IBBL," *New Horizon*, No. 44, (October 1995) : 3.

Silverman, Rachel Emma. (2006, January 6-8). "Microfinance gains appeal as investment vehicle." *The Wall Street Journal* (Asian Edition), 20.

"Small sums, big issues". (2004, November 18). *The Economist* (Print Edition).

"Starting over". (2005, December 14). *The Economist* (Print Edition).

Conferences, Seminars & Unpublished Papers:

Otiti, Saidat. (2002). *Islamic Development Banking*, unpublished paper.

Internet Sources:

Al-Harran, Saad. "Partnership Financing: Self-Helf for the Poor." *IBFNET*. Retrieved July 3, 2002, from: http://islamic-finance.net/islamic-microfinance/harran2.html

________. "Proposal for an Integrated Marketing Model of Musharakah financing to Help Disadvantaged Fishing People in Malaysia." Paper presented in a workshop jointly organized by Cranfield University, England and The Arab Foundation for Enterprise Development, Cairo, July 10-13, 1995. The Safir Hotel, Cairo, Egypt. *IBFNET*. Retrieved July 3, 2002, from: http://islamic-finance.net/islamic-microfinance/harran6.html

Al-ZamZami, Ahmed and Lorna Grace. "Islamic Banking Principles Applied to Microfinance." *UNCDF*. United Nations Capital Development Fund.

Retrieved November 5, 2003, from: http://www.uncdf.org/english/microfinance/reports/ thematic_papers/islami.../main_text.htm

Conroy, John D. (2002). Microfinance in Malaysia: Time to Rebuild. Brisbane, Australia: The Foundation for Development Cooperation. Retreived December 19, 2006. from: http://www.fdc.org.au

"Microfinance Gateway: Frequently Asked Questions." *The Microfinance Gateway*. Retrieved January 18, 2006, from: http://www.microfinancegateway.org/section/faq?PHPSESSID=13d804e6f6c c24d394be2b...

"Microfinance in Pakistan yet to take off." *Pakistan Link*. Retrieved January 18, 2006, from: http://www.pakistanlink.com/Headlines/Jan06/17/07.htm

http://www.microfinancegateway.org/

EXTENDED BIBLIOGRAPHY

Books:

Ahmed, Razia A. (1983). *Financing the Rural Poor: Obstacles and Realities*. Dhaka: University Press Limited.

Bennet, Lynn. (1998). "Combining Social and Financial Intermediation to Reach the Poor: The Necessity and the Dangers", in Kimenyi, Mwangi S., Robert C. Wieland, and J.D.V. Pischke (eds). *Strategic Issues in Microfinance.* Hants, England: Ahsgate Publishing Ltd. pp.99-117.

Bornstein, David. (1996). *The Price of a Dream: The Story of Grameen Bank and the Idea that is Helping the Poor to Change their Lives*. Dhaka: University Press.

Buckley, Graeme. (1996). "Rural and Agricultural Credit in Malawi, A Study of the Malawi Muzdi Fund and the Smallholder Agricultural Credit Administration", in Hulme, David and Paul Mosley. *Finance Against Poverty*. London: Routledge, Volume 2, pp. 333-407.

Fuglesamg, Andreas and Dale Chandler. (1993). *Participation as Process – Process as growth: What We can Learn from Grameen Bank*. Dhaka: Grameen Trust.

Ghazali, Audit and Syed Omar, (eds.). (1989). *Readings in the Concept and Methodology of Islamic Economics*. Kuala Lumpur: Pelanduk Publications.

Haneef, Mohamed Aslam. (1995). *Contemporary Islamic Economic Thought: A Selected Comparative Analysis*. Kuala Lumpur: Ikraq/S. Abdul Majeed.

Hashemi, Syed M. (1997). “Building up Capacity for Banking with Poor: The Grameen Bank in Bangladesh,” in Schneider, Hartmut (ed.). *Microfinance for the Poor*. Paris: Development Centre of the Organization for Economic Cooperation and Development, OECD, pp.109-128.

Hossain, M. (1983). *Credit Programme for the Landless: The Experience of Grameen Bank Project*. Dhaka: Bangladesh Institute of Development Studies.

________. (1984). *Credit Programme for the Rural Poor: The Experience of Grameen Bank Project*. Dhaka: Bangladesh Institute of Development Studies.

________. (1987). “Employment Generation Through Cottage Industries – Potentials and Constraints: The Case of Bangladesh,” in Rizwanul Islam (ed.). *Rural Industialisation and Employment in Asia*, ILO. New Delhi: Asian Employment Porgramme.

Hulme, David and Paul Mosley. (1996a). *Finance Against Poverty*. Volume 1, London: Routledge.

Hulme, David and Paul Mosley. (1996b). *Finance Against Poverty*. Volume 2, London: Routledge.

Khandkar, Mubina. (1998). *Women’s Access to Credit ad Gender relations in Bangladesh*. Ph. D. Thesis, University of Manchester.

Kimenyi, Mwangi S., Robert C. Wieland, and J.D.V. Pischke, (eds). (1998). *Strategic Issues in Microfinance.* Hants, England: Ahsgate Publishing Ltd.

Moududi, Abul A. (1985). *Fatawa al-Zakah,* (in Arabic). Jeddah: Center for Research in Islamic Economics, Kink Abdul Aziz University.

Otero, Maria and Elisabeth Rhyne, (eds). (1994). *The New World of Microenterprise Finance*. West Hartford, Connecticut: Kumarian Press.

Quardawi, Yusuf. (1980). *Fiqh al-Zakah*, (in Arabic). Beirut: Muassasah al-Risalah.

Reed, Larry R. and David R. befus. (1994). “Transformation Lending: Helping Microenterprises Become Small Business,” in Otero, Maria and Elisabeth Rhyne, (eds). (1994). *The New World of Microenterprise Finance*. West Hartford, Connecticut: Kumarian Press, pp. 185-204.

Rosly, Saiful Azhar. (2005) *Critical Issues on Islamic Banking and Financial Markets: Islamic Economics, Banking and Finance, Investments, Takaful and FinancialPlanning,* Kuala Lumpur: Dinamas.

Schneider, Hartmut, (ed.). (1997). *Microfinance for the Poor*. Paris: Development Centre of the Organization for Economic Cooperation and Development, OECD.

Yaron, Jacob. (1997). "Performance of Development Finance Institutions: How to Acces It?" in Schneider, Hartmut, (ed.). *Microfinance for the Poor*. Paris: Development Centre of the Organization for Economic Cooperation and Development, OECD.

Articles, Journals & Research/Working Papers:

Ahmad, Ausaf. (1993). *Contemporary Practice of Islamic Financing Techniques*. Jeddah: Islamic Research and Training Institute/ Islamic Development Bank, Research Paper No. 20.

Ahmed, Habib. (1998). "Microfinance Schemes in Bangladesh: Virtuous Circles or Vicious Cycles?" manuscript.

Berger, Allen N. and Gregory F. Udell. (1998). "The Economics of Small Business Finance: the Roles of Private Equity and Debt Markets in the Financial Growth Cycle." *Journal of Banking and Finance*, No. 22, pp.613-73.

Dichter, Thomas W. (1996). "Questioning the Future of NGOs in Microfinance." *Journal of International Development*, No. 8, pp.256-69.

El-Ghazali, Abdel Hamid. (1994). *Man is the Basis of the Islamic Strategy for Economic Development*. Jeddah: Islamic Research and Training Institute/ Islamic Development Bank. Islamic Economics Translation Series No. 1.

Goetz, A. Marie and Rina S. Gupta. (1996). "Who Takes the Credit? Gender, Power, and Control over Loan Use in Rural Credit Programmes in Bangladesh." *World Development*, No. 24, pp.45-63.

Hashemi, Syed M., Sidney R. Schuler, and Ann P. riley. (1996). "Rural Credit Programs and Women's Empowerment in Bangladesh," *World Development*, No. 24, pp.635-53.

Huppi, M., and Gershon Feder. (1990). "The Role of Gorups and Credit Cooperatives in Rural Lending." *World Bank Research Observer*, No. 5, pp. 187-204.

James, Kenneth and Narongchai Akrasanee, (eds.). (1986). *Small and Medium Business Improvement in the ASEAN Region: Financial Factors.* Field Report Series No.6. ASEAN Economic Research Unit, Institute of Southeast Asian Studies.

Kahf, Monzer and Tariqullah Khan. (1992). *Principles of Islamic Financing, A Survey*. Jeddah: Islamic Research and Training Institute/ Islamic Development Bank. Research Paper No. 16.

Karim, Md. Rezual and Mitsue Osada. (1998). “Dropping Out: An Emerging Factor in the Success of Microcredit-based Poverty Alleviation Programs.” *The Developing Economies*, Vol. 36, No. 3, pp. 257-88.

Khandker, Shahidur R., Baqui Khalily and Zahed Khan. (1995). *Grameen Bank: Performance and Sustainability*. World Bank Discussion Papers, No. 306 Washington DC: The World Bank.

Khandker, Shahidur R. (1996). “Grameen Bank: Impact, Costs, and Program Sustainability.” *Asian Development Review*, Vol. 14, No. 1, pp. 97-130.

Khandker, Shahidur R. and Mark M. Pitt. (1998). “The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participant Matter?” *Journal of Political Economy*, Vol. 106, No. 5, pp. 958-996.

Mohsin, Mohammad. (1995). *Economics of Small Business in Islam*, Visiting Scholar Research Series No. 2. Jeddah: Islamic Research and Training Institute/ Islamic Development Bank.

Montgomery, Richard. (1996). “Disciplining or Protecting the Poor? Avoiding the Social Costs of Peer Pressure in Microcredit Schemes.” *Journal of International Development*, No. 8, pp. 289-305.

Morduch, Jonathan. (1999). “The Microfinance Promise.” *Journal of Economic Literature*, No. 37, pp. 1569-1614.

Osmani, S. R. (1989). “Limits to the Alleviation of Poverty through Non-Farm Credit.” *The Bangladesh Development Studies*, Vol. 17, No. 4, pp. 1-19.

Rahman, Aminur. (1996). “Microcredit For Women in Rural Bangladesh: Retrenchment of Patriarchal Hegemony as a Conseguence.” *Chicago Anthopology Exchange*, No. 23, pp. 6-22.

Rahman, Aminur. (1999). “Microcredit Initiatives foe Equitable and Sustainable Development: Who Pays?” *World development*, Vol. 27, No. 1, pp. 67-82.

Rahman, R.I., and S.R. Khandker. (1994). “Role of Targeted Credit Programmes in Promoting Employment and Productivity of the Poor in Bangladesh.” *The Bangladesh Development Studies*, Vol. 22, Nos. 2 & 3, pp. 49-92.

Stiglitz, Joseph E. (1990). “Peer Monitoring and Credit Market.” *World Bank Economic Review*, No. 4, pp. 351-66.

Yousri, Abdel Rahman Ahmad. (1995). *Small Industries in Developing Countries: Development and Problems of Financing from Conventional and Islamic Perspective*, (in Arabic). Visiting Scholar Research Series No. 1. Jeddah: Islamic Research and Training Institute/ Islamic Development Bank.

World Bank. (1978). *Employment and Development of Small Enterprises*, Sector Policy Paper, Washington DC: World Bank.

Conferences, Seminars & Unpublished Papers:

Ahmad, Aka Firowz. (198). “The Management System of NGOs Microcredit Program for Poverty Alleviation in Bangladesh”, paper presented at the First International Conference on Islamic Development Management, Penang, December 1998.

Basar, Hasmet, (ed.). (1987). *Management and Development of Awqaf Properties*. Research-Seminar-Workshop Proceedings No.1. Jeddah: Islamic Research and Training Institute/ Islamic Development Bank.

Cizakca, Murat. (1996). “The Relevance of the Ottoman Cash Waqfs (Awqaf al Nuqud) for Modern Islamic Economics” in M.A. Mannan (ed.). *Financing Development in Islam*. Jeddah: Islamic Research and Training Institute/ Islamic Development Bank. Seminar Proceedings Series No. 30.

Cizakca, Murat. (1998). “Awqaf in History and Implications for Modern Islamic Economics’, paper presented at International Seminar on Awqaf and Economic Development, Kuala Lumpur.

El-Ashker, Ahmed Abdel-Fettah and Muhammad Sirajul Haq. (1995). *Institutional Framework of Zakah: Dimensions and Implications*. Jeddah: Islamic Research and Training Institute/ Islamic Development Bank. Seminar Proceedings Series No. 23.

Yusoff, Mohammed. (2004). “Fiscal Policy in an Islamic Economy and the Role of Zakat.” International Seminar on macroeconomics from an Islamic Perspective. Renaissance Hotel, Kuala Lumpur.