Carsey School of Public Policy, UNH
Webinar on Islamic Microfinance
November 2014

SHARIA-COMPLIANT MICROFINANCE –
AN IRRELEVANT COSMETIC OR A
MORE EQUITABLE FUTURE?
ISLAMIC FINANCE, SOME BASIC PRINCIPLES

IT’S WRONG MERELY TO MAKE MONEY OUT OF MONEY – THERE MUST BE SOME NON-MONETARY SERVICE

WE CANNOT FORETELL THE FUTURE – HENCE WE SHOULD NOT FIX A RATE OF RETURN WHICH IS BASED ON AN ASSESSMENT OF WHAT WILL HAPPEN IN THE FUTURE
The demand is not only from clerics: <40% of Muslims who need and can access MF reject fixed interest loans because they are haram.

Islamic MF is <1% of all MF

(CGAP: Islamic microfinance, an emerging market niche. World Bank 2008)
Words-only Shariah-compliance

The MFI adds ‘administrative charges’, ‘management fees’ to the loan, but otherwise nothing is different
<table>
<thead>
<tr>
<th>Produit</th>
<th>Taux d'intérêt nominal</th>
<th>Frais de dossier</th>
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</thead>
<tbody>
<tr>
<td>ENILAKA</td>
<td>2,1%</td>
<td>125 DH</td>
</tr>
<tr>
<td>MOUAKABA</td>
<td>1,8%</td>
<td>125 DH</td>
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<tr>
<td>DILAK</td>
<td>1,5%</td>
<td>125 DH</td>
</tr>
<tr>
<td>OHEDI</td>
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</tr>
<tr>
<td>KADOUM</td>
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</tr>
<tr>
<td>AL HIRAFI</td>
<td>1,4%</td>
<td>250 DH</td>
</tr>
<tr>
<td>RAQOU</td>
<td>2,6%</td>
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<tr>
<td>RAQOU IKHLASS</td>
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<tr>
<td>ASSALON</td>
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<tr>
<td>JSALON</td>
<td>1,0%</td>
<td>125 DH</td>
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COSMETIC SHARIAH-COMPLIANT MICROFINANCE

MURABAHA – THE MFI BUYS THE ITEM AND SELLS IT TO THE CLIENT AT A PROFIT

IJARA – THE MFI BUYS THE ASSET AND LEASES IT TO THE CLIENT

IN BOTH CASES THE PROFIT IS FIXED AND IS EQUIVALENT TO INTEREST
GENUINE SHARIAH-COMPLIANCE

QARD HASAN – NO PROFIT OR CHARGES OF ANY KIND, BASED ON CHARITABLE DONATIONS FOR CAPITAL AND EXPENSES


MUSHARAKA – MFI AND CLIENT INVEST, AND SHARE THE RISK
Qard Hasan: charity in a real sense

Akhuwat (‘Brotherhood’) of Pakistan
250 branches, 250000 active loans,
600000 clients, $200 average loan,
6:4 men to women
Zero interest or ‘profit’

Clients’ voluntary donations cover 30% of operating costs
Other costs and loan fund donated by individuals

Is this “sustainability” in a broader sense?
Examples of Murabaha

Basix Finance, Mewat, India
Kabah/Doses of Hope, Somaliland
Al Amal, Yemen
BPRS micro-rural banks, Indonesia
Problems of murabaha buy & sell

- Can only be used for formally priced business assets
- Cumbersome procedures, costly for MFI and clients
- Tends to exclude poorest who need MF for consumption, health, school fees....
Musharaka – profit and loss sharing

Protects clients from ‘double blow’ of indebtedness and loss of asset

Shares good and bad fortune with clients and with MFI
“Since Muslims participating in Islamic Microfinance programs are devote Muslims and they do not indulge in cheating, deceit fraud and other malicious activities.......”.

(Partnerships for Success: A Case of Musharaka for Small and Microenterprise Development. Azhar Nadeem, http:\faithbasedmicrofinance.info)
Musharaka – outstanding problems

Most micro-business people, particularly the poorest, don’t know and/or won’t tell their profits and losses.

How to estimate and then to assess the profit, and to settle the shares?
For additional information on Islamic Finance visit the AlHuda Centre of Islamic Banking and Economics (CIBE)

http://www.imfn.org/

AlHuda Center of Islamic Banking & Economics is a pioneer organization started its efforts to promote Islamic Banking & Finance eight years ago. In these working years, AlHuda CIBE is acknowledged all around the world due to its excellent services and its team of dedicated professionals who are equipped to continue thriving.
Have you any examples of shariah-compliant MFs, in particular musharaka/mudaraba? If so, please tell me about them: malcolm.harper@btinternet.com
Does the Islamic microfinance experience have lessons for the future of all microfinance?