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An Assessment of Global Microfinance Models and Lessons for Muslim Practitioners

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Abstract
Poverty is widespread the world over and Microfinancing is one of the ways by which it can be reduced. There are different models of microfinance. This paper examines some microfinance institutions as practiced in selected countries with a view to adopting some of their innovative and novel approaches to the emerging Islamic microfinance industry. Analysts have concentrated their efforts on examining the workings of microfinance models without drawing lessons from the various conventional models of Microfinance in relation to that of Islam. Hence, this paper examines each of the models and draws out areas that can conveniently match with and foster the Islamic model. It does a content analysis of primary and secondary sources of works on Microfinancing.

Introduction

Poverty, no matter how extreme, can be alleviated. This can achieved through the adoption of two methods. The first is by creating awareness among people in order to make them escape from exploitation. The other approach is the materialist approach. It advocates material assistance to the poor in order for them to cross the poverty line[1]. Microfinance utilises the materialistic approach. It entails the provision of a broad range of financial services to the poor and low income households and microenterprises in order to improve their lives in a sustainable way[2].

Microfinance is regarded as the process of advancing credit to the poor without going through the rigid and cumbersome administrative stress and procedure of conventional banks. In most cases, collateral security is abandoned for social force or guarantee. A major component of microfinance is closeness to clients and the use of existing traditional systems to ensure repayment of loans.

Moreover, microfinance is an innovative financial arrangement designed to attract the poor in the capacity of either a borrower or a depositor. Its mechanism involves the provision of credit to a new or an already existing enterprise. The aim of this type of financing, often referred to as promotional finance, is to boost productive activities and enhance income generation of clients. This form of finance is most useful for the chronic poor who are deprived of the necessities of life due to physical or socio-cultural deficiencies. As for the transitory poor, whose level of income is lower when compared with others due to deficiencies in the distribution of economic resources, funds are provided for them in times of need. There is also the opportunity of building up savings that can be drawn to meet specific social and personal needs otherwise known as consumption smoothing[3].

Microfinance, otherwise known as microcredit, has existed for centuries under different names. Reference can also be made in this instance, to the existence of money lenders and Rotational Savings Associations (ROSCAs) which caters to the need of investors and businessmen and women who need fairly large amount of money which may be beyond their regular income. Rotational Savings Associations (ROSCAs) in particular, usually concern itself with the pooling together of fund from members. Such fund is later made available to the latter to meet specific business goals. It is expected that this money lent to them will be returned over a specific period through their continuous contribution. This will continue until the circle is completed.

The earliest history of this institution is traceable to China Pawnshops which were operated by Buddhists between 317-589 CE. Their *modus operandi* was in form of reliance on donations and the loaning of such donations to the poor for a pre-determined period. After the decline of Buddhism in Ming between 1368-1644 CE, and in Qing between 1644-1911CE, individual members adopted this financial model. These individual members, in turn turned it into a daily financial service. This continued to serve all until the emergence of conventional banking system in the 19th Century[4].

Microfinance services are usually not limited to the funding of businesses of low-income earners in the society. Rather, its activities include the provision of some social services such as health and education. Corroborating this, Ledgerwood (2000) opined that it was imperative for microfinance practitioners to provide their clients with additional social services together with their financial intermediation. He also explained that the best way to get supportive services, which play a crucial role in sustaining human development to the poor, is through Self Help Groups (SHGs) [5].

Microfinance has been a success all around the world. The reason for this is the formal conventional financial system's discrimination against the poor. This is in terms of its procedures which favours the elites. These conventional banks usually require a large amount of money to open an account. Furthermore, the minimum balance is usually too high for the poor. The conventional banking system appears to have been designed for the educated and the haves and not for the uneducated and the poor. [6] It is, therefore, usually not so effective in reducing poverty.

Commercial banks have not been able to partake effectively in effective micro-credit activities. This is because their services are not tailored to meet the needs of micro-enterprises. The reason for this is partly due to the high cost usually incurred in the administration of such small scale loan portfolios. As a result, it creates a gap in the mobilisation of savings from advanced credit to low income earners.

It is on record that microfinance programmes have great success in the area of loan repayments and that its tentacles reach out to groups that were formally neglected. They have equally abandoned the outdated idea of heavy government affiliation. This is through paying attention to incentives that drive optimum performance. Majority of microfinance funds are sourced through direct financing or short-term loans, borrowed by practitioners from donor agencies. The resultant effect of this is 70% coverage of full cost by committed practitioners. Many hope for improvement of their sustainability over time, while donor agencies continue to have a strong voice in the microfinance industry. These agencies now argue for the restriction of subsidies to start up costs of microfinance organisations [7].

Poor households' claim to credit facilities is bound to fail due to factors such as high risk, low savings and scarce collateral. However, microfinance firms are presently turning this challenge around. This is through their offering of attractive models of Microfinance with different philosophies and targets[8]. Microfinance programmes consist of some unique features. These include:

i) advantages of collateral free loan to clients;
ii) mobilisation of clients into groups: each consisting between five to thirty members; They therefore collect loans in turn. However, all group members act as guarantors to the loan;
iii) loans are payable for one year during which weekly installment payments are made;
iv) branches of such banks are established in sub-urban areas;
v) members can seek for loans after joining solidarity groups. This takes between two weeks and six months; and
vi) majority of the clients are women.[9]

Based on regulation, Microfinance Institutions can be categorized into three types. The first is the "credit only" microfinance Non-Governmental Organizations (NGOs). These Non-Governmental Organizations (NGO's) depend on "other people's money" to operate their credit management. Their funds are mainly from donor agencies. The funds come in form of subsidized or concessionary loans to microfinance practitioners[10]. The setting up of viable welfarist microfinance Non-Governmental Organizations (NGO) requires strict monetary discipline. This often results in a conflict of interest between capitalism and compassion.[11] The credit only Non-Governmental Organizations (NGOs) are not regulated. However, there are calls for its regulation based on safeguarding the safety and soundness of the monetary system.[12]

These arguments include regulating it to act only as a positive indicator to prospective financial system investors. Furthermore, it is to ensure proper financial standing by accessing donor funds through second-tier institutions. Other arguments for regulation are hinged on uplifting its standard in order to contribute meaningfully to the development of the financial systems. It is also to prevent abuse of monopolistic authority that could result in exploitative practices especially in states with little development of microfinance.[13]

The second type of microfinance includes the various Community Savings and Credit Cooperative (CSCC) and Credit Unions (CU) and the Positive Savings Cooperative Association (PSCA) known as

ROSCA. In this last one, members' fund is re-circulated exclusively as credit to fellow members. The third type of microfinance is one that utilises public funds, including government financial institutions. Here, funds are extended to the public without compelling them to open an account with their financial institutions. The second part of this last one are the commercial banks with microfinance windows.[14] They are aimed at exclusively serving the poor and they also source their funds from the public to serve the poor.

Microfinance in Islamic Economics

Islam is comprehensive in its statements and stand on total eradication of poverty. For the concern of Islam about the poor, it is the first if not the only religion to lay punishment for those who do not take care of the basic needs of the poor when they have the capability to undertake such duties. Allah makes it clear that Muslims have responsibilities over their fellow human beings. As such, Muslims must show mercy towards their brethren and help in the up-keep of the indigent through provision of essential needs and necessary capital to start-up or develop business ventures.

Islamic Microfinance is an emerging financial model. This is probably because Islam does not consider money as an asset for earning profit and as such prohibits the charging of interest on investment or loans. Islam emphasizes social, moral and ethical factors in the distribution of wealth. It also guides towards social and economic justice.[15] Islam is not against microfinance except when un-Islamic components are embedded in it. In the case of conventional microfinance, Islam is unequivocally against interest on financial services (*ribā*) to either the poor or any other person or group of persons. Islam also frowns at the concealment of the true nature of a business transaction or contract (*gharar*) which is prevalent in conventional transactions.

Interest (*ribā*) is defined as the rental payment for the use of credit by borrowers in return for parting with liquidity by lenders.[16] It comes into play when a loan is advanced to an individual for a specific period of time with the agreement among parties that the debtor would either pay a percentage of the principal at specific periods before settling it or the payment of excess on the principal when the debtor is incapable of fulfilling his pledge at the expiration of his term of payment. This leads to the payment of excess amount over and above the principal by the debtor as a reward to the creditor for granting more time to him.

Majority of Islamic jurists and economists, have in line with revelations from the Qur'ān, *hadīth* and historical facts prohibited transactions involving interest (*ribā*) in all its forms. This runs contrary to contemporary financing. However, it is acceptable and preferable for the debtor to increase the payment of loan funds when returning it to the creditor without any pre-discussions with him (creditor) or any desire for increase from him (creditor). There are three characteristics of interest (*ribā*). They are:

i) it involves excess or surplus over and above the loan capital,
ii) the condition of the transaction on the payment of predetermined surplus, and
iii) the determination of the surplus over and above the capital or the principal in relation to time.[17]

The prohibition of interest (*ribā*) came in the following verse (*'āyah*) of the Qur'ān:

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا
مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

O you who believe: Devour not usury doubled and multiplied but fear Allah that you may (really) prosper. (Q3: 130)

The Holy Prophet (SAW) corroborated this ban on interest (*ribā*) with a number of his sayings. The first to be explained classifies interest (*ribā*) as one of the fatal sins (*kabā'ir*). It states:

اجتنبوا السبع الموبقات قالوا :وما هن يا
رسول الله؟ قال الشرك بالله، والسحر،
وقتل النفس التي حرّم الله إلا بالحق، وأكل
الربا وأكل مال اليتيم والتولي يوم الزحف
وقذف المحصنات والغافلات المؤمنات

Keep away from seven fatalities. They (companions)

> *asked, and what are they O Messenger of Allah? He replied: Associating partners with Allah, magic, taking of life that Allah has made sacred except with a just cause (e.g. passing of judgment or war), consuming the wealth of ar-ribā, consuming the wealth of the orphan, fleeing from the battle and accusing innocent chaste believing woman (of adultery or fornication).*[18]

And a similar one says:

لعن الله آكل الربا، ومؤكله، وشاهديه وكاتبه

> *Allah has cursed the devourers of ribā, the givers, its witness and the scribe who writes it down.*[19]

Qutb (1973) is of the opinion that once interest (*ribā*) is established in a system, it continues to increase without stopping due to its dynamic nature. It is pertinent to note that interest (*ribā*) destroys the psychology and ethics in the society. In addition, it destroys the structure of the economy and the political atmosphere while it negatively affects the masses thereby playing a negative role in destroying the fabrics of the society.[20]

The current economic meltdown in the world is a product of this destructive phenomenon. Interest (*ribā*) gives rise to two kinds of moral evils. First, it generates self-centeredness among its devourers. Secondly, the givers feel a strong feeling of hatred, jealousy, resentment and spite for its devourers.[21] Islam intends creating a model society where sound physical, social, political and economic prosperity will be guaranteed to all. In addition, it desires a system that will be free of hatred, greed, rancour and wickedness. Thus, interest (*ribā*) is prohibited through the revelation of the verse (*'āyah*) in question.

In the 50s, Dr. Schakht, a renowned economist and former Director of Raykh Bank of Germany, commented on the defects and the evils in interest (*ribā*). He concluded that *ribā* reduces the poor to abject poverty and increases the means of the rich. The rich thus gets richer at the expense of the poor who gets poorer.[22] Another economist, Kinz, who propounded the theory of "Free Economy" in the world, states that money will not be able to perform its monetary functions effectively except when rate of interest is reduced to zero percent.[23]

Furthermore, on the evils of interest (*ribā*), Schakht (1953) in his lecture in Damascus, used arithmetic calculations to conclude that the quantity of money in the world will diminish due to the accumulation of wealth by a few through the use of interest (*ribā*). This evil is capable of sparking-off dispute in the relationship between the lender and the borrower. Lenders will continue to inflate interest rates until traders among the borrowers are forced to fold up due to little money in circulation leading to market deficiencies and consequent unemployment. It should be noted that for every interest (*ribā*) based loan, the masses are made to pay the illegal excess.[24]

Similarly, Islam prohibits deceit or exposure to loss (*gharar*). *Gharar* is usually perceived as something which is desired when the exterior is considered but hateful when studied critically.[25] It is the sale of a probable article without certainty as regards its existence nor its features disclosed.[26] It extends to all transactions concerning exchanges in which its comprehensive implications are not clearly unveiled to parties concerned.[27] It applies to any sale contract in which there is uncertainty in either the genus, quality or the species of the object, its existence, identity, price and the time of payment.[28]

In addition, it is a contract between two parties wherein one of the parties may decide to cheat or exploit the other party through wrong description or ignorance of goods, which the seller is not able to deliver. It also applies to the making of a contract conditional upon an unknown event. Islamic jurists and economists have agreed on the prohibition of such a contract.

A prominent Islamic jurist, Ibn Jawzī gives ten cases where *gharar* is eminent.[29] Also Al-Dhareer (1997) divides it into two[30] while Sābiq

(1995) lists eleven kinds of it.[31] For the avoidance of *gharar*, the following conditions need to be fulfilled.

a) To ascertain that the object of sale is not only in existence but available and in the constructive possession of the seller at the time of sale. Joined to this is the determination of the price of the object before its sale.
b) The date of delivery must be defined if there is need necessitating the delay of the object's delivery.
c) The characteristics of the object should be fully made known to both the seller and the buyer before the sale contract.[32]

The motive behind Islamic finance is, therefore, beyond gain. It introduces collectivism openness and the sharing of profit and loss through the principles of Trustee Project Financing (*Mudārabah*), Equity participation (*Mushārakah*), Mark-up (*Murābahah*). Leasing (*'Ijārah*) and Forward sale (*Bay'al-salām*). As for personal or social financial obligation of clients, otherwise known as consumption smoothing, non-interest bearing loans are advanced to clients. This is otherwise called *Qard Hasan* (benevolent loan), it does not require the sharing of profits or losses. However, a mild service charge that is not calculated based on the loan fund may be charged

Microfinance Case Studies by Countries

(i) Microfinance in Bangladesh

In Bangladesh, strategies used in microfinance have assisted in the reduction of poverty. They have also reduced the problems of outreach and loan "delinquencies" as against what obtains in their conventional banking systems. It should be noted that, these strategies have led to high transaction costs. Microfinance practitioners in Bangladesh rely on donor funds, part of which is diverted to social wages such as schools and health centres.[33]

In 1991/92, as much as 26% of total sub-urban rural households participated in microfinance programmes in Bangladesh. Although, the educated ones did not participate in microfinance programmes, households with some level of literacy and enlightenment but no formal education did participate in it. Over 90% of microfinance clients in Bangladesh are women. Moreover, microfinance firms find advancing credit to female clients more convenient due to their regular and prompt repayment of loans.[34] Furthermore, in the late 19th century; Europe witnessed the spread of cooperatives which aimed at serving the low income households. This partially inspired Dr. Muhammad Yunus, who later became a professor of economics at the Chittagong University in Bangladesh, to initiate the replicate of these aforementioned cooperatives in Bangladesh. This development happened at a time when the country was witnessing a terrible famine. He therefore, set aside his economic theories for a fieldwork at the neighbourhood of the University.[35] Professor Yunus' initiative called Grameen Bank is now a microfinance bank replicated in Bangladesh and other parts of the world under the name "Grameen Bank's model".

Professor Yunus discovered that the villagers were not able to obtain loans at reasonable interest rates. He then started to lend them funds from his personal savings. With these loans, they were able to purchase working tools, which included materials for making pots and weaving of bamboo stools.[36] This action research plan of Professor Yunus, which commenced with forty-two people started with a loan of twenty-seven U.S. dollars ($27). This programme was expanded with the help of the students of professor Yunus and students of other faculties in the University and the Central Bank of Bangladesh. [37]

Grameen Bank's loans were commonly used in traditional craft, rice processing and raising of livestock. Grameen Bank's model entails clients voluntarily constituting themselves into a Self Help Group (SHG) of five individuals. Lending was to two members of a group at the first instance. After the payment of loan by these two members, another two members are given loans and thereafter the last person collects the loan. Here, there is a joint liability on loan to members. Eight of such groups of five individuals meet weekly with a bank staff addressing them. The contract has its basis on social asset and local information. The mechanisms involved are based on informal insurance relationships and series of threats. The threats could be physical assault or social isolation. As a combination of rotation savings and credit societies, there are no collateral securities. Advances are for one calendar year with a normal interest rate of 20%. This is lower than the 32% required for sustainability.[38] Aside from the interest-based transaction which is prohibited in Islam, this Grameen's model is suitable for Islamic microfinance practice. However, care needs to be taken not to result to assaults and social isolation in the recovery of funds as that will be against the spirit of Islam.

Loan repayment ratio is determined through the merging of the principal and the interest and then dividing the combination by fifty. The gestation period for loans is some weeks after (loan) advancement. Payments are made on a weekly basis. Usually, 0.5% of credit advanced is contributed by clients as emergency fund. This served as insurance in case of death or default. Furthermore, 5% of credit is deducted as group tax. This goes into a group fund with half of it accessible for other group members to borrow.[39] Investment fund, once given to start or boost on investment serves as equity in the business within the Islamic finance and therefore, cannot be used for other things such as emergency fund or group tax. Nevertheless, members could contribute a token from their funds into an Islamic emergency fund otherwise, known as contributory insurance (*takāful*).

In grey areas, Grameen bank officials play the role of marriage counsellors, conflict negotiators, training officers, civil leaders and bank managers. This is the case when individuals come to weekly meetings with all sorts of pathetic stories of why they could not repay their loans. This case arises in villages where cyclones and floods usually bring about project failures. Grameen is also in some cases faced with the challenge of moral and social hazards. In its Bornmi branch for instance, the branch manager and his members of staff are able to keep up the branch through their balancing between the true capability of members and social enforcement by co-members to secure repayments without collapse of the groups.[40] The lessons in this is that coordinators of Islamic microfinance would have to be more dedicated in the discharge of their functions. They would have to adopt the matured positions of marriage counsellors, conflicts resolution managers, training officers and civil leaders. This will in no small measure contribute to the development of Islamic microfinance firms.

Furthermore, Grameen Bank is also interested in human capital development. This was why United Nations Scientific and Cultural Organisation (UNESCO) in September 1995 signed a memorandum of understanding with Grameen Bank. Among the contents in this agreement is the pledging of cooperation in designing and providing basic educational, scientific and technological programmes. It also includes cultural and communication programmes.[41] Islam encourages human capital development. As such, Islamic microfinance practitioners need make it their priority. Education of members will definitely reduce those in need of microfinance and improve the efficiency of those in it.

Similarly, Grameen and other practitioners in Bangladesh focus of gender. The focus on gender is as a result of unfolding events. For instance, in 1980/83, Grameen had 39% female clients. However, by 1991-1992, they rose to 94%. Researchers have proved that 15.3% of males in Grameen were missing some payments before their final due date while this was found in only 1.3% of females. At Grameen, women are much more sensitive to verbal hostility showed toward them by fellow group members and the financial institution's workers in reaction to their repayment difficulties. They are also sensitive to damages on their personalities as it reflects on their households and lineage. This is not totally so with male counterparts.[42]

A study of Grameen Banks performance between 1985 and 1996 shows its average credit portfolio increased from Ten million United State Dollars (10,000,000) in 1985 to Two hundred and seventy-one million United State Dollars (271,000,000) in 1996. At the same time, its membership increased twelve times to reach two million, sixty-thousand (2,060,000) million clients with 98% loan recovery. This is in addition to the steady profit. However, Grants from donor agencies are counted as part of its income. It often receive subsides through soft loan with an average interest rate of 3.7%. In the 90s, salaries and personal costs alone accounted for half of its total capital cost. Reducing this high cost has become a mirage in view of the fact that the wage scale of its staff is affiliated with that of government workers. Training of the bank's staff and the clients drains a substantial amount of funds from the Bank. This is quite expensive and most of the direct grants are diverted into this aspect.[43] Islamic microfinance practitioners should take care not to pay what they would eventually find difficult to sustain.

Safe Save is another initiative in Bangladesh. It focuses on savings from its members on a daily basis. It has the sole aim of converting these savings into useful huge sum of money. Safe Save has the capability of becoming financially sustainable through its flexible terms and activities. In 1998, it had two thousand Clients.[44] Islamic microfinance should in my view, encourage savings among clients. This will cultivate in them the habit of not overspending their hard-earned income. It could also prevent the deliberate evasion of payment by clients.

(ii) Microfinance in India

In Southern India, specifically in Madras and Bangalore, there is a Non-Governmental Organization (NGO) called The Bridge Foundation (TBF). It serves over one thousand poor entrepreneurs in the South-Eastern states of India. This Non-Governmental Organization (NGO) which was registered both as a charity organization and a trust receives grants from donor agencies. It gives out its funds as "aids" charging 8% interest under the name donation. This is because under the law of the land, it could not give out loans since it is not a financial institution. Similarly, transactions with clients are informal and not legally binding. The foundation, therefore, relies on ethical sensibilities and guarantors for loan repayments. In case of default, staff resorts to religious politics by terming the loan God's money. They even renegotiate repayment schedules or cancel the debt in the event of futility of their efforts.[45] In my view, Islamic microfinance practitioners can as well rely on ethical sensibilities of clients. This is where social programmes of the microfinance programme come to play. To this end, Islamic microfinance practitioners are expected to give spiritual lessons to clients on a weekly basis with emphasis on eschatology and its implication in a Muslim's life.

The original aim of the Bridge Foundation is to channel funds through churches and pastors to their followers. As such, identifying credible pastors was then a problem. Consequently, they lend through pastors who have proven their integrity and whose records of accomplishment testify to their trustworthiness and reliability. They utilize the reliable character reference network. This reference network entails pastors of first generation churches indemnifying independent church pastors. Clerics now have the role of carefully selecting trusted church members and monitoring the loan and enforcing its agreements.[46] Similarly, Islamic microfinance could channel funds through mosques and their Imams who must have been guaranteed by selected pious religion clerics

The utilization of mainline churches, no doubt, helps in the monitoring of pastors thereby serving as quality control of top church administrators over their employees. Although most loans go to committed churchgoers, it is also extended to trainees of recognized civic organization such as Lions and Rotary clubs. Funds are equally extended to trainees of other Non-Governmental Organization (NGO's). The Bridge Foundation also play other community development roles. This include the training of Non-Governmental Organization (NGOs) with fledging microcredit programmes.[47] I believe that Islamic microfinance industry can also emulate from Bridge foundation by extending their services to willing Islamic organizations.

In 1968, Captain William Davidson formed a Non-Governmental Organization (NGO) named Mysore Resettlement and Development Association (MYDRA) in the Indian state of Karnatake. The NGO was a necessity as it catered for about 15,000 Chinese refugees who entered India during the former's war with Tibet. The aim of the Mysore Resettlement and Development Association is to facilitate the establishment of cooperation among the grassroots. After 25 years of its successful Linkage of refuges to cooperative societies, this Non-Governmental Organization could boast of its own school, clinic and monastery. It also had a number of tractors. These success story attracted the attention of the indigenes of Karnataka who were generally less fortunate.[48]

Due to popular demand by native dwellers of Karnataka, MYDRA lunched a number of cooperatives for them but they ended up in failure. In addition, in the 80s, it set up a Village Development Associations (VDA) comprising of between fifty to one hundred and twenty members. The Village Development Associations (VDA) were aimed at bringing communities together with some functions. These functions include: conflict resolution, forum for identifying beneficiaries and fund channeling towards development programmes. Consequently, there were two kinds of Village Development Association (VDAs). One linking the village together, and the other was for elevating the poor. These also went into oblivion.[49] This was bound to fail because the voice of the poor was underplayed as they tried using bottom-down approach; trying to encourage financing the poor rather than living the poor to organize themselves into groups for credit.

Eventually, success was recorded when the villagers formed groups of between ten and twenty-five individuals of similar socio-economic standing. They share similar employment and social pressure groups in response to government sponsored community projects. Similar groups were then arranged into Credit Management Groups (CMGs). These Credit Management Groups were thereafter linked with commercial banks for loans. It should be noted that individuals also saved within the groups. Mysore Resettlement and Development Association does not believe in dual banking system (one for the rich and another for the poor). Rather, it gives the poor organizational skill needed to participate in commercial banking. It also acts as the voice of the poor. This is because it adapts the rigidity of the commercial banks to that of the poor.[50] One lesson in Mysore Resettlement and Development Association is the ability of clients to organize themselves into Self Help Groups (SHGs). As such, it is desirable that clients of Islamic microfinance firms organize themselves into Self Help Group for accessing financial and non-financial services.

(iii) Microfinance in Yemen

Microfinance was introduced to Yemen in 1997. Two years after the establishment of this programme, which happened to be the fastest growing programme in the region, there was an increase in the number of its clients from two hundred and fifty (250) to two thousand six hundred (2,600). Yemen is the poorest country in the Arabian Peninsula. Further, the female borrowers in Yemen increased tremendously from a low figure of 1% in 1997 to 26% in 1999. Within the period under review, its sub-urban borrowers increased from 10% to 27%. There are four microfinance programme operating in Yemen.[51] Two important features are obvious in Yemen's microfinance programmes. The first is that microfinance programmes are implemented by a body called the "Social Fund for Development" and the second is that three of the programmes, including the largest, utilize the Islamic interest free banking techniques. The social fund for development was established to ameliorate shocks emanating from the government's reform programmes. It reduces poverty by providing income generating opportunities and improving living conditions. Its two major activities are providing community development services or social wages and small public works. The other function is micro-financing and income generating programmes. Initially when microfinance programme started in the country, most people rejected it based on Islamic abhorrence of interest. In addition, some of them did not prefer profit and loss sharing because they were reluctant to declare their profit. However, many embraced the buying and selling at a cost-plus (*Murābahah*) because of its simplicity but were weary of it. This is because they see it as being close to interest. Profit and loss sharing technique were also seen as administratively cumbersome by the financial institution. Clients too did not understand its unequal repayment schedule.[52] In my own view, cost-plus mode of financing (Murābahah) should only be resorted to when other modes of financing are impossible as it was not originally a financing technique and it has a thin line separating it from ribā (interest) which is prohibited in Islam.

As the microfinance programmes gained ground, clients could calculate cash flows. They were conversant with the marker price of most inputs and could determine their average profit with careful calculations. As there were more demand for cost-plus (*Murābahah)* model, programmes purchased loan products for their clients. This financing technique led to high transaction costs. These had to be included in the price of loan through either a higher profit-sharing or a higher mark-up.[53]

(iv) Microfinance in Ireland

In the later part of the 19th century, various delegates the world over, travelled to Germany to study the innovative banking which was pioneered by Herman Schulze-Delitch in the urban areas. Similarly, Fredrick Raiffeisin pioneered it in the sub-urban areas. This innovative bank was called the "Peoples Bank of Germany". The bank, within fifty years, helped put impetus into Germany's economic development. As such, two million people were members of several Peoples Banks in Europe as early as 1913. Ireland, as part of its eagerness for a total end to sub-urban poverty through the provision of credit facilities without government intervention, witnessed Sir Horace Plunkett and the Irish Agricultural Organization Society (IAOS) in 1894, introducing Raiffeisen's system of credit cooperatives. Consequently, the first branch of this institution was opened at Doneraile in 1898.[54]

This initiative proved futile as it had little savers due to the competition it encountered from well-standing conventional financial institutions. Raiffeisen's model also requires a well developed system of auditing which was not in place. Also, cooperative members who were supposed to keep an eye on other group members failed to play their crucial role. Therefore, social security which was a key feature of cooperatives over commercial banks was completely lost. Finally, the cooperative could not win the trust of people.[55] It is important that Islamic microfinance officials win the trust and confidence of its clients. This will no doubt help in its success and sustainability

(v) Microfinance in United States of America

In the late 90s, United States of America witnessed almost two hundred micro credit programmes. Total advancements for the period in review stood at twelve million USD, ($12,000,000) resulting in the creation of 30,000 new entrepreneurs. In fact, these programmes have served 170,000 clients. Some of these organizations are based on group concept while others are not. Loans are however, granted based on "gradual advancement of credit". Loans are equally advanced to groups when projects are of high risk.[56] Working capital is one of the leading microcredit Non-Governmental Organization (NGO) programmes in the United States of America. Gradual advancement of credit will familiarize the microfinance institution with the client. This can be adopted by Islamic microfinance institutions as it will reduce moral hazards; clients not deliberately not wanting to return borrowed funds

Working Capital, a microfinance outfit, was founded in 1990. Between 1990 and before 2001 before it merged with ACCION, it had extended its services to seventy different communities covering seven states in the United States. Between 1990 and 1995, it facilitated the establishment of one hundred and ninety-five borrowing groups in Maine, Massachusetts, New Hampshire, Rhodes Island and Vermont. It also served some unidentified groups in Florida and Delaware.[57]

In her operations, groups were formed without any relationship between them. These entrepreneurs usually identify with groups without any conscious formation of such teams. Borrowers who are less likely to know one another are attracted through information meetings organized by Working Capital at community centres. It is here that members are informed of the rules of the organization. Members will subsequently be able to collect loans and meet other entrepreneurs.[58]

For the advancement of loans, individuals were organized in groups after which they submit their applications for onward consideration. Funds were made available only when members were redeeming their loans. Another member can only access loan after a new member has repaid his loan thrice and promptly too. This means that, there is limitation of individuals' access to credit when considering other group members (limited to failure to repay). When a loan is thirty days outstanding, it is termed as "loan delinquency". On the contrary, it becomes a default after one hundred and twenty days. Delinquency by a member with a credit facility automatically leads to freezing of credit to others. Such owing member defrosts this in event of payment. In case of default, the group as a whole is seen as a failure and, therefore, dissolved. However, members who still pay back their debt.[59] Group concept is here utilized in indemnifying group members.

Another community development bank in the United States is the Shore Bank (SB). It is the oldest and the largest in the country. Established in 1973, it extends non-traditional and more flexible loans to both personalities and cooperate bodies. It equally advances loans for the purchase and renovation of affordable houses. The firm provides workforce development and employment consulting on businesses among other things. The bank has a development deposit account which is channeled towards sustainable Community Development Projects. By so doing, it is able to attract neighbourhood capital for the purpose of not only investing in Community Development but earning a competitive rate on their investment.[60] This may not be feasible in most microfinance firms as it not likely that they access funds from the non-poor. However, Islamic microfinance can source for *zakat* (almsgiving) and *waqf* (endowment) funds for the purpose of community development.

(vi) Microfinance in Egypt

Egypt surpasses other North African and Arab countries in microfinance. The industry utilises best practices in its conventional interest-bearing operations. It possesses an excellent loan portfolio with strong and honest clients. Many micro-finance institutions in the country are fully sustainable while others are close to it. Two most successful programmes are firstly Alexandra Business Association (ABA) and the National Bank for Development Programme (NBDP).[61]

The Alexandra Business Association has the world's best model of efficiency. Its operational cost is 8% on every Egyptian pound. With the assistance of United States Agency for International Development (USAID), this model has been replicated in the country. The National Bank for Development is a commercial bank. Micro-finance is implemented in forty-three of its branches with two of them fully dedicated to it. In 1999, microfinance accounted for less than five % of lending but over 30 % of its profit.[62]

Five foundations on the model of the Alexandra Business Association have been set up. However all non-banking Non-Governmental Organization (NGOs) cannot collect savings and deposits as financial institution do. The market impact is also low as less than one hundred-thousand or 5% of the poor are covered. About 75% of microfinance clients are males. Culturally, this may be due to the fact that loans are only meant for businesses and not for consumption smoothening as men are mostly expected in this occupation. It is noteworthy that 80% of the clients are located in the urban areas as against the case in many developing countries.[63] This model is not Islamic complaint as it involves ribā (interest) which is prohibited in Islam. Nevertheless, Islamic commercial banks can establish microfinance windows in some of their branches. As against the culture of less participation of women in business activities they women) could be encouraged to participate in it as it is not against the teachings of Islam.

(vii) Microfinance in South Africa

The South African economy is yet to recover fully from political problems it faced under the apartheid regime as 49% of the forty-two million citizens are living in poverty. The country has discovered the failure of commercial banks in serving the poor. This development led to the establishment of a wholesaler firm called *Khula*. It is aimed at providing loan capitals and other services to financial retail organizations directly serving the people. The establishment of *Khula* has facilitated the setting up of fourteen micro-finance and fifteen micro-credit institutions.[64] One of the beneficiary institutions is called Provident South Africa.

Provident South Africa (PSA) is a United Kingdom based credit and Motor Insurance Company. This company, which is over one hundred and twenty years old, is listed on London's Stock Exchange and it operates in the Northern Province of South Africa. It was able to cover 60% of the province in three years. After a period of probation, its parent company allowed it to operate as a profit oriented centre. This company with one hundred and fifty employees and six hundred self-employed staff, had by December 2001, served about a hundred thousand clients in four branches. However, this period heralded the decline of this organisation. This decline was due to internal weaknesses, macro-environment threats and constraints in its financial resource. The clients to this body are poor, self-employed, black and uneducated and with 80 % of them being women.[65]

In Provident South Africa (PSA), local managers required twelve local agents who were mostly women. These agents benefit from local knowledge usually utilized in screening customers and in the collection of loan repayments. This is because they are from the same village with their clients. Loans are delivered and repayments made in the clients' homes. As such, after due training, they searched for their customers within five kilometer radius. This "home delivered" and "home collected" model, therefore, required regular visit of clients by agents. About 95% of Provident's loans went into financing businesses, 2% into consumption while 1% was into school fees, housing materials and similar needs.[66] A lesson for Islamic microfinance here, is the home delivered and home collected services. According Islamic microfinance practitioners can base their services on this model.

(viii) Microfinance in Uganda

A number of informal financial activities exist in Uganda. These include financial transactions not covered by the formal financial sector. It also includes kith and kin Savings, moneylenders operations and Community-Based Organizations (CBOs) where Non-Governmental Organization (NGOs) belong.[67] The informal sector operators include Post Office Bank. There are seventy-nine operators of microfinance in the formal sector. These include Non-Governmental Organizations (NGO's), cooperatives and others.[68]

Land is the most significant form of collateral for receiving credit in the informal sector. The utilization of funds received from Non-Governmental Organization (NGOs) and cooperatives go mainly into empowerment. Microfinance has in no small measure, contributed to employment creation and household income. In fact, small and medium scale enterprises which are mainly funded by microfinance provides employment for 90% of school drop-outs, the skilled but unemployed individuals and retired public servants.[69]

Furthermore, researches have shown that only 9% of female clients in the country have sole authority over their credits. In addition, 87% of females reported the management of their projects as family business. About 33% of male borrowers at the first instance have control over their credits while 56% were managed through family partnerships. It should be noted that family partnership is usually a disguise of male dominance. This means that females command little control over credits. Moreover, it should be noted that female clients not only redeem their loans, but that of their husbands.[70] This attitude is not only un-Islamic but constitutes an oppression against the women folk. I believe that their husbands should guarantee credits given out to females clients. If Islamic microfinance practitioners adopt this policy, it would reduce this act of oppression against women.

(ix) Microfinance in Cameroon

Rotational Savings and Cooperative Association (hereafter refer to as ROSCA) is a popular means of microfinance in Cameroon. It is called *Njangeh*. Usually accompanying this ROSCA is the "troubled bank". This troubled bank otherwise called "meeting" is a parallel, but different association, when compared with ROSCA. It is meant to cater for urgent financial needs of members. The troubled bank, unlike ROSCA, charges interest on transactions. This small but terminating bank is where members borrow at fixed interest rates. The contributions in it are very small when compared to ROSCA's contributions. Members are few when compared to ROSCA. A few groups of ROSCA societies subscribe to the "troubled bank".[71]

At the Troubled Bank 5% is charged on loans per month. This translates to 60% per annum. Loans are also advanced to individual members while putting into consideration, the amount of their contributions. In other words, there exists a ceiling on funds given out as credit to clients. Initial contribution to this bank is usually enormous. This is to create a substantial pool of funds for its take-off while subscriptions are fixed and are to be paid on regular basis. Several loans may be given out to individual clients so long as old debts have been cleared by them.[72]

Clients who for one reason or the other, are incapable of meeting their financial obligations as ROSCA members, can borrow from the troubled bank to meet these obligations. The troubled bank serves as partial collateral security to individual members of ROSCA who subscribe to it. It is, however, incapable of serving as effective collateral for transactions within ROSCA. This is as a result of non-proportionate levels of financial standing.[73]

The circle of "troubled banks" terminates in a specific pre-determined period. In most cases, it terminates at Christmas periods. To be precise, it terminates after the winding-up of ROSCA circle. At the completion of the troubled bank, members are paid back their accumulated savings and interests. The secretary to the association, and the conventional bank officials who help in safe keeping, collect their fees from the interest made on credits. In Cameroon, the system of ROSCA and troubled banks, have a turnover of seventy-five thousand United States Dollars ($74,000) annually with approximately six hundred and fifty loans. The system gives rise to mobility of individuals within the ROSCA. In Cameroon, people prefer this mode of microfinance to the loans from formal financial institutions.[74] Individuals who prefer ROSCA to the formal financial institutions could engage in it without involving in *ribā* (interest). This also applied to the troubled bank.

Conclusion

It is evident from the above that Islamic Microfinance is a unique finance system which utilizes such Islamic principles as the avoidance of *ribā* (interest), sharing of liabilities and partnership between Islamic financial institutions and the clients as well as equity in sharing profits and losses between the former and the latter. It is equally axiomatic from this study that the practices of Islamic Microfinance in Nigeria stand to benefit from existing Microfinance systems in such countries as Bangladesh, India, Ireland and Cameroon. This paper has equally argued that once the element of *ribā*, (interest) which is prohibited in Islam[61] is excised from the operational models in the microfinance systems currently being implemented in these countries, Islamic microfinance system may adopt some of their approaches to microfinance. These include operational guaranty (*damān*), Grameen Bank's model, the formation of Self Help Groups (SHGs) and the administration of Human Capital Development (HCD).

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