PROBLEMS AND PROSPECTS OF FINANCING RURAL MICRO-ENTERPRISE PROJECTS UNDER ISLAMIC SHAR`IAH: BANGLADESH PERSPECTIVE

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1. Introduction:

Bangladesh is an agrarian country. Most of its people are poor farmers who live in the villages. A good number of them constitutes landless farmers who are underemployed leading destitute lives below the poverty line. Development of Bangladesh economy can hardly be conceived of without uplift-ment of the standard of living of this huge rural community. So, various organizations like NGO's and financial institutions have undertaken micro-enterprise projects with capital investments ranging from 5 to 25 thousands. The objectives of these organizations are mainly eradication or alleviation of poverty of the poor villagers of Bangladesh. Although 88% of the people of this country are Muslims by religion and by faith, it is surprising to note that most of the micro-enterprise financing at village level are based on the basis of fixed interest charges which is strictly, prohibited in Islam by Almighty Allah. Almighty Allah ordered the interest to be 'haram' while He made the business 'halal'. There is a sharp contrast between the interest and the business income (profit/loss). Interest is a fixed positive charge on the capital by the lender from the borrower while business income may be either positive or negative depending respectively on the good or bad situation of business. Since interest-based financing is prohibited under Islamic Shar`iah and it is the sheer violation of the order of Almighty Allah, all project financings in a Muslim majority country are ideally expected to be undertaken under Islamic-Shar`iah.

At present there are about 42 NGO's working under the rules of Islamic Shar`iah having an investment of Tk. 750 million. They have formed Federation under the name of Association of Muslim Welfare Agencies in Bangladesh (AMWAB). They constitute a very small segment as compared to other NGO's in terms of quantum of investment and number of projects financed.

2. Objectives:

The purpose of this short writing is to highlight problems and prospects of financing rural micro-enterprise projects under Islamic Shar`iah in Bangladesh. The whole write-up will be divided into three major sections. The first section will be devoted to identify the major problems. Next, suggestive solutions will be discussed and the third one will assess the prospects and potentialities of rural micro-enterprise financing under Islamic Shar`iah.

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3. Methodology and Coverage:

The article is developed through desk research and field survey. Some managers having experience in financing rural micro-enterprise projects under Islamic Shar`iah have been interviewed and some related works have been consulted for obtaining data and information. In conformity with the title, the paper is designed to cover the problems and prospects of rural micro-enterprise financing under Islamic Shar`iah. So, problems and prospects of other micro-enterprise financing e. g. urban projects or rural micro-enterprise projects financed under other than Islamic Shar`iah have been kept aside. Further, rather than some specific problems or prospects of a particular institution, problems and prospects in general under Shar`iah based financing have been covered.

4. Features of Rural Micro-enterprise Financing:

Shar`iah based rural micro-enterprise financings are provided for the farmers having 0.50 acre of land or less for the persons having no land as well as destitute women/farmers being permanent residents of villages who are engaged or likely to be engaged in off-farm works and activities. Projects generally covered under the financing programmes have been tube-well, rural transport, crop production, rural housing, pond fishery, agricultural equipments, and other off-farm activities and rural businesses and these projects are financed under the following Shar`iah-based Methods:

i) Bai-Muajjal
ii) Hire Purchase Sirkatul Melk
iii) Mudaraba
iv) Musharaka
v) Bai-Salam
vi) Murabaha

Bai-Muajjal is a mode of financing commonly used in production and trade related activities. Under this system the financing authority or institution purchases production inputs from the markets for the clients who inturn repurchase them from the authority or institution at a predetermined price made up of cost plus a reasonable profit or mark-up. The financing institution collects the sale proceeds in lump-sum or in installments.

Under *Hire Purchase Sirkatul Melk*, the financing institution purchases rentable assets for the use of client. The institution after taking necessary cash security or down payment, purchases the assets from the market as per choice and for use of the client. The client pays the periodic rental and a portion of purchase price on installment basis. When the rentals plus purchase price is fully recovered the title of ownership of the asset is transferred to the client. Under this method, the financing institution undertakes the following risks:

1. It is responsible to pay the basic maintenance cost of the leased machinery, the total cost of which may remain uncertain during lease period.
2. It is also responsible for any break-down of asset before completion of its normal life and transfer of right of ownership to the client. According to Shar`iah the cost of insurance is borne by the lesser[4].

Mudaraba is a partnership contract between the financier and the other partner who has no capital but for business expertise or entrepreneurship qualities. The financier supplies the capital and the other partner or partners invest and use their expertise, business skill and labour. The profit of business is distributed as per contract and *any loss without the fault and negligence of the partners will be borne by the financing partner*. Other partners loose their value of labor (as entrepreneurs) and time.

Under *Musharaka* mode of financing, the financier and the client jointly contribute and invest capital in business, the profit of which if any, is shared as per predetermined ratios whereas any loss is shared in the ratio of capital supplied.

Bai-Salam is that mode of financing whereby, the financier supplies finances for making advance purchase of products at a fixed price. When the products are produced they are supplied to the financier. Through this mode of financing, the client meets his working capital requirements. Under Bai-Salam the financier may take some security against financing.

Under *Murabaha* financing, the financier purchases products as per requirements and choice of the client and sells it to the client at an agreed profit. The client pays the agreed sale price in future in lump-sum or in installments as per conditions of the contract.

Thus, the essence of all Shar`iah based financing is the contractual business that earns profit or incurs loss. As known from the field survey, the Shar`iah based rural micro-credit financing in Bangladesh is solely done under Bai-Muajjal mode of finance. This is due to its simplicity, ease of understanding and ease of operations in the rural environment.

Another feature of micro-credit rural financing is that it is group oriented. Ideal village members of groups of five or more are created. A group leader is elected from each group. The group members are jointly and individually liable for the default of any member and finance is provided to the member as recommended by the group.

5. Problems of Rural Micro-Credit Financing Under Islamic Shar`iah:

Having a glimpse over the Shar`iah based rural micro-credit financing, we can turn to identify its problems as revealed through our research. These may be described as:

01. Conceptual problem
02. Problem of illiteracy
03. Lack of favorable ground for investment
04. Selection of right client
05. Selection and preparation of suitable projects
06. Problem of financing risky projects
07. Competition from Non-Shar`iah based NGO's
08. Lack of expertise
09. Shyness of village women
10. Risk of fund diversion and misuse
11. High transaction costs
12. Direct purchase of goods creating problems
13. Problem of pucca cash-memos
14. Problems created by village touts and anti-social elements
15. Lack of trained manpower
16. Lack of Islamic Micro-Credit Financing Banks at rural level

17. Small coverage
18. Less risky projects earning less profit
19. Lack of investment in research for rural development through micro-credit Shar`iah based financing
20. Lack of Shar`iah based economy

01. Conceptual problem: Not to speak of the villages, most of our people of Bangladesh have no clear concept of Shar`iah based financing. They can hardly distinguish between Islamic and other modes of financing e.g. how interest is diferentiated from profit? What are Bai-Muajjal, Musharaka, Bai-Salam, Murabaha, etc? As such it takes longer time to sell the idea of Shar`iah based financing. So long the people are not understanding the concepts, they are not accepting the schemes.

02. Illiteracy: Most of the village clients and the target groups as well are illiterate. This acts as an stumbling block towards expansion of rural microcredit financing. There are some clients who can not even write their names or put signatures on the contractual documents. They do not read themselves and understand the terms and conditions of Shar`iah based financing.

03. Lack of favourable ground for investment: Almost in all the villages of Bangladesh, the grounds for investment under Shar`iah based financing are found to be unfavorable. The success of Shar`iah based financing presupposes, perfectly honest and laborious clients, they must be true Muslims. They must not resort to any sort of falsification or dishonesty. They must state the true profit or loss. They must be of high morale and sincerity of purpose. But such types of clients are very few in number. Further, there is hardly any Islamic Bank or other Islamic financial institutions at village level. Moreover, most of the villages suffer from good communication and marketing environments. All these are deterrent factors against micro-credit rural financing under Islamic Shar`iah.

04. Selection of right client: Most of the micro-credit financings in rural projects are extended against personal guarantee. Usually no collateral or other securities are taken. As such selection of right clients will spell the success or failure of such projects. But it is very difficult to select a right client for various reasons.

05. Selection and preparation of suitable projects: It is also difficult to select and prepare suitable rural project that will earn a regular return to pay the installments of the financier. For lack of organized village markets, project may sometimes becomes difficult and burdensome to be carried out smoothly.

06. Problems of financing risky projects: Generally rural micro-credit finances are encountered for less risky projects. Risky projects although might be more profitable are hardly undertaken for want of Islamic insurance coverage in Bangladesh. Otherwise rural micro-credit financing under Islamic Shar`iah could be more dynamic and revolutionary.

**07. Competition from Non-Shar`iah based NGO's:** Shar`iah based microcredit rural financings face much competitions from various non-shar`iah based NGO's. Such NGO's lend money to the poor villagers against fixed interest basis. These NGO's get huge funds from the foreign donors. Therefore, they are comparatively in a better position to allocate and invest more fund for rural projects. To quote, the socio-economic control of Bangladesh has been shared by more than 1800 NGO's with an investment of more than Tk. 500 billion whereas some 42

NGO's only are working under the rules of Islamic Shar`iah with an investment of Tk. 750 million. Although these interest based financings are prohibited in Islam, finding no other alternatives, the poor villagers take resort to them.

08. Lack of expertise: Mostly rural micro-credit financings under Islamic Shar`iah are targeted to the poor village women who lack in business experience and expertise.

09. Shyness of village women: Normally village women are comparatively shy. Their shyness also retards open discussion and understanding regarding various aspects of Shar`iah based financings.

10. Risk of fund diversion and misuse: Reportedly micro-credit financing is beset with risk of fund diversion and misuse.

11. High transaction cost: Micro-credit financing involves high transaction costs due to regular close personal drives for collecting the installment as well as supervision of projects by the agents or employees of the financing institutions.

12. Direct purchase of goods creating problems: In Bangladesh, Bai-Muajjal mode of micro-credit rural financing is used wherein goods are purchased from the market as per choice of the client. This requires joint programs by the financier and the clients for purchasing the desired goods from the market. Sometimes goods up to the mark of the client may not be found.

13. Problem of pucca cash-memos: In most of the village markets, pucca cash memos are not used. This creates auditing and accounting problems of rural micro-credit financing under Islamic Shar`iah.

14. Problems created by village touts and anti-social elements: Village touts unless their interest is served some times stand in the way to rural development through micro-credit financing under Islamic Shar`iah. They often pose threat and misguide the poor clients to co-operate with the financier.

15. Lack of trained manpower: Lack of well trained and skilled manpower in rural micro-credit financing under Islamic Shar`iah is a major problem for rapid expansion and comprehensive launching of rural projects in Bangladesh.

16. Lack of Islamic Micro-Credit Financing Banks: Lack of Islamic Micro-Credit Financing Banks at rural level is identified as an another great problem.

17. Small Coverage: Shar`iah based rural micro-credit financing covers less risky projects witth a very selective group of clients. Naturally, the coverage is very limited in number of projects and quantum of investment.

18. Less profit: Since less risky and safe projects are sought for investments, the projects earn less profit which might be eaten up by inflation of money.

19. Lack of Research: Lack of investment in research for Shar`iah based micro-credit financing in rural areas also handicaps rural development through Shar`iah based micro-credit financing.

**20. Lack of Islamic Shar`iah based Economy:** Lack of Islamic Shar`iah based economy creates multifarious problems of market mechanism, capital market development, establishment of

Islamic insurance and what not. All these retard the pace of rural development through micro-credit financings.

6. Suggestive Solutions:

The solutions of above problems lie in the followings:

01. Establishment of Islamic Sar` iah-based Economy.
02. Establishment of independent Islamic Micro-credit Financing Banks at rural levels.
03. Estensive investment in research for Islamic Shar` iah financing of projects at rural level.
04. Establishment of Islamic State Bank, Islamic Insurance and Development of Islamic Capital Market in Bangladesh.
05. Conversion of interest-based banking and insurance companies into Islamic banking and Islamic insurance companies.
06. Islamization of education in Bangladesh from primary schools to university.
07. All fiscal policies, rules and regulations should be based on Islamic Shar` iah.
08. Investment should be made in development and training of manpower in Shar` iah based rural micro-credit financing.
09. Since destitute village women are usually covered under micro-credit financing, the agents, employees and workers dealing with micro-credit financing should be well trained Muslim women.
10. The village leaders and the Imams of village mosques should be well trained and educated under Shar` iah-based economy so that their services can be utilized for successful operation of micro-credit financing programs at village levels.
11. Entrepreneurship training and development should be given to the village women who will be covered under the micro-credit financing programs.
12. The Chairman, village leaders and the Imams of village mosque should be made members of the Islamic Shar` iah based rural micro-credit financing programs.
13. Effective education programs should be undertaken to remove illiteracy from the poor villages.
14. Projects should also be undertaken for the development of health and sanitation of villagers.
15. Steps should be taken to develop infrastructural facilities of the rural areas. The roads, communications and village markets should be developed.

7. Prospects and Potentialities

Rural development through micro-credit financing under Islamic Shar` iah has tremendous prospects and potentialities in Bangladesh. This is well expressed in items of the following:

1. Wide acceptability
2. Employment facilities
3. Improvement in standard of living
4. Poverty alleviation
5. Improvement in rural health, hygiene and sanitation
6. Removal of illiteracy
7. Improvement in morale
8. Entrepreneurship development
9. Checking tendency of migration of poor villagers towards cities and towns.

01. Wide acceptability: Shar`iah based micro-credit financing has wide acceptability in villages. This is because the service charge and profit share of the financier are based on agreeable terms. On the other hand, interest-based micro-credit financing is comparatively more costly in terms of higher service and interest charges. Further, the village people of Bangladesh are very simple having deep regards for religious sentiments. Because Islam strictly prohibits interest, and, because most of the villagers are Muslims, they hardly welcome interest-based financing for their upliftment. Rather they fail Shar`iah financing the essence of which is business that is made 'halal' by Almighty Allah.

2. Employment Facilities: If Shar`iah based micro-credit financing programs are extended in 68,000 villages of Bangladesh, employment facilities of rural people will definitely be increased. Rural economy will be revitalized and economic activities will multiply that will pave the way for employment of destitute people.

3. Improvement in standard of living: Shar`iah based micro-credit rural projects, if effectively run, will ensure a better share of profit for the clients. The client needs not to pay a compulsory charge as interest. If the failure of project is not due to the insincerity of the client, the loss is not borne by the loanee rather it is borne by the supplier of capital fund. Thus, a better share of project return adds to the upliftment of the poor villagers.

4. Poverty Alleviation: Since micro-credit financing under Islamic Shar`iah will be widely hailed and accepted by the poor villagers, almost all of which are Muslims, it will have extensive coverage of rural projects in Bangladesh. These projects will create scope of earnings for the poor and have-not-villagers. Thus, these will alleviate property of people living in rural areas.

5. Improvement in conditions of rural health, hygiene and sanitation: Shar`iah based financing for development of the poor people of villages presupposes people of sound health and hygiene who will work laboriously and sincerely in various projects to make them successful and viable. Therefore, projects will be undertaken to improve the conditions of health and hygiene of the village people.

6. Removal of Illiteracy: Shar`iah based financing puts emphasis on the removal of illiteracy of the destitute and poor inhabitants of villages. This is because the success of such projects is dependent on the morally and religiously committed educated peopole.

7. Improvement in Morale: In absence of Shar`iah based financing, the poor Muslims take resort to interest-based financing. But they are quite aware of that this is surely the violation of order of Almighty Allah. Therefore, morally they remain weak. But when Shar`iah based finaicing wil be available, they will prefer it to interest-based one, since it will not be considered as sin rather it will be considered as virtue. Thus shar`iah based financing will raise the morale of the poor Muslim villagers.

8. Entrepreneurship Development: Micro-credit Shar`iah based financing finances small business and other economic activities of village dwellers. It does not directly lend money to the client. As such it makes the poor villagers business and entrepreneurial mined-specially the destitute village women.

9. Checking tendency of migration of poor villagers towards cities and towns: If poor village people are pre-occupied and engaged themselves in economic projects of Shar`iah-based micro-credit financing in their own villages, they will hardly migrate to cities and towns to create slums and 'Basti' area there.

8. Conclusion:

Banglaedesh is a Muslim-majority country. Eighty percent of its people are farmers who lead a poor-life in villages. The country's over-all economic development is closely linked with the development of these villages. Among others, rural micro-credit financing under Islamic Shar`iah, can be one of the unique modes of morally and religiously acceptable financing for developing these villlages of Bangladesh. This article in this context, is a survey on the problems and prospects of Islamic Shar`iah-based financing for the development of rural areas. The paper also forwards some suggestive recommendations for solving the identified problems and it asserts, if the recommendations are adopted in Bangladesh, Shar`iah-based micro-credit financing of village projects will have tremendous prospects and potentialities in Bangladesh.

Footnotes and Selected Readings:

Footnotes:

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