

Islamic Based Microfinance A Tool for Sustainable Development

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The core objective of the study was to explore the role of Islamic based microfinance in the material welfare of the poor women entrepreneurs. The phenomena of 'microfinance' as a 'financial development approach' and in formalization of labour force as an 'economic strategy'; have evolved as salient features of economic scenario of developing countries. This study examined that how microfinance provides more opportunities for employment, production and income generating capacity for the establishment of microenterprises by entrepreneurial women. The study focused on Islamic based microfinance, as a tool for poverty alleviation and sustainable development, with respect to three interdependent and interlinked perspectives; financial sustainability, better social capital and women empowerment. The twenty five potential women entrepreneurs, who took microfinance from 'Akhawat' (Islamic based interest free microfinance institution), were selected through purposive sampling strategy for conducting case studies in this qualitative research study. It was found that Islamic based microfinance is an effective, more realistic and better intervention for these women entrepreneurs, their empowerment and poverty eradication from the society. The study concluded that Islamic based microfinance can bridge up the gaps of existing conventional microfinance, such as, tough collateral requirements, low access to microfinance, income related gaps, high interest rates, etc., and can play a pivotal role in reducing poverty and eventuating in sustainable development of the society.

Keywords: Islamic based microfinance, sustainable development, social capital, women empowerment, women entrepreneurs.

Introduction

Islam has strictly prohibited 'interest' (*riba*) as it is the 'real exploitation of humanity' (Saqib, 2012). The clear instructions have been given in the Holy Quran and, even if, somebody still deals in 'interest', then he/she shall be prepared for a war against Almighty Allah and his Prophet Hazrat Muhammad (SAW).

O you who believe! Be afraid of Allah and give up what remains (due to you) from Riba (usury) (from now onward), if you are (really) believer (278) And if you do not do it, then take a notice of war from Allah and His Messenger but if you repent, you shall have your capital sums. Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums) (279) (Al-Baqara, 02, Al-Quran)

Over the past few decades, the phenomenon of 'microfinance' has

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evolved as a 'financial development approach' with its more focus to benefit low income segment of the society. The conventional microfinance involves interest. The emphasis of microfinance is to provide financial services to poor people also covering the self employed (Ledgerwood, 2000). The term 'microfinance' encompasses a wider range of financial provision and services like money deposits, loan facilities, payment services, cash transfers and insurance schemes to the needy and deserving persons, poor households and their less income generating microenterprises (ADB, 2008). Microfinance provides more opportunities for employment, production and income generating capacity of the less privileged poor people, consequently empowering people by increasing their income and improving their life standards, such as quality of education, health standards and food intakes (Obaidullah & Khan, 2008).

According to a report on poverty, it is estimated that out of the world's total population (6.5 billion), almost 2.8 billion are living below than US\$ 2 per day whereas approximately 1.2 billion people live below than US\$ 1 per day (World Bank, 2007). Despite of the fact that poverty and hunger eradication is the first and foremost Millennium Development Goal (UN 2007), about 122 million Muslims and other 100 million Muslims are living below poverty line in Pakistan and India respectively (Obaidullah & Khan, 2008). According to the Economic Survey of Pakistan 2013-14, 61% of the country's population is living below the poverty line, that is, earning less than USD\$ 2 per day.

Potential Women Entrepreneurs

Informalization of labour force is a salient feature of economic scenario of developing countries (Sinha, 2006), particularly in South Asia, where approximately 50% to 80% non-agricultural employment consists of informal sector (Doane, 2007; Sudarshan & Sinha, 2011), out of which 65% are women (Chen, 2004). Many global research studies (Todaro & Smith, 2009) have revealed that women are more likely to be poorer than men. They are more deprived of education, health facilities and more vulnerable to gender discrimination. At the same time, it is also an established fact that women spend their income mainly for their children and household expenses in comparison to men. The development theorists believe that women are the major role players in

development process of any society. Millennium Development Goals (MDGs) have also targeted these main issues like gender discrimination against women, women empowerment and poverty alleviation which depicted the global understanding that the actual meanings of development cannot be achieved without women empowerment.

The basic idea of microfinance emerged in 1970s and women were the major focus or potential clientele for microfinance. There were numerous reasons for selecting women as potential clientele like positioning within the household structure, their entrepreneurial abilities and gender equity. The research studies on microfinance have also shown the tendency of high rates of credit repayments by women, which also proved to be a positive reason for focusing women. Otero & Rhyne (1994) expounded that women's enhanced access to microfinance leads to mutually buttressing and inter-reliant 'virtuous circles' of improved well being, enhanced economic, socio-political and legal empowerment of women. The objective of microfinance is to develop a robust financial system at grass root level for uplift of the marginalized segments of the society (Johnson, 2004).

Mondal (2003) expounded that microfinance is an effective tool for empowering the low income segments of the society, poverty reduction, financial development and playing a vital role in instigating entrepreneurship in poverty stricken segment of the population. Microenterprise development increases wealth creation and results in poverty alleviation and microfinance is the basic ingredient in microenterprise development process (Mustafa & Ismailov, 2008; Ahmad, 2005). For any sustainable development initiative and poverty alleviation from the society, the enterprise development is imperative. Usually poor people run these enterprises and the income generated from these enterprises is used to manage household expenditures and not invested back in the enterprises. Hence, the poor always require external financing to manage their enterprises smoothly. At the same time, these enterprises cannot provide the collateral or guarantees required to the conventional financing institutions due to their poverty. These collaterals or guarantees are taken by these institutions to cover up the defaults. The conventional organizations do not extend financing to those entrepreneurs who cannot fulfill the prerequisite

of collaterals (Obaidullah & Khan, 2008). Even if these entrepreneurs are provided microfinance, they have to pay the interest on this loan, which is usually 10% to 15%. The poor entrepreneurs cannot bear this double burden and eventually results in loan defaults in a high percentage. In these circumstances, Islamic based microfinance assists the poor to combat with poverty and find a dignified way out it.

Types of Enterprises

According to Asian Development Bank (ADB), microenterprises can be distinguished into two groups; higher-return “entrepreneurial” activities and low-return “survival” activities (Shaw, 2004). Obaidullah (2008) also categorized enterprises as growth enterprises and livelihood enterprises. In growth enterprises, entrepreneur is attracted by considerations of profitability and is an entrepreneur by choice, while in livelihood (survival) enterprises; entrepreneur is usually pushed for want of more profitable alternatives. The poverty alleviation is usually the main objective of all programs which aim at developing livelihood enterprises. These programs try to supplement the income of the poor by enhancing their productivity. They are generally called “minimalist” due to their small scale of operations. Whereas, growth-oriented enterprise programs advocate for enterprise development and try for profit maximization and usually called “maximalist”. The livelihood enterprises are usually part-time or seasonal enterprises developed to increase the household earnings, making an important contribution to family income. These often involve very basic skills, result in low earning which is consumed in household expenses and generally owned and operated by women. However, dependence on external funds is always there in these enterprises.

A study conducted by Global Entrepreneurship Monitor (GEM) revealed that the status of women’s entrepreneurship varies in different countries (Allen et al., 2007). The various socio-cultural and economic factors limit the women’s level of partaking in entrepreneurship in their own countries. The study also reported that in the countries where women’s were educated, their participation as entrepreneurs was high. GEM also classified entrepreneurship in two categories; opportunity enterprises and necessity enterprises.

The microenterprise development is imperative for poverty alleviation from a country. The poor micro-entrepreneurs cannot avail credit facilities from formal institutions, as they cannot fulfill the prerequisite like physical collateral or guarantees. The NGOs or banks are also generally not interested in providing funds to microenterprises as their transaction cost of sanctioning loan is very high. Hence, the poor resort to non-institutional loans and their interest rate is very high. In some cases, the people even lose their property or other valuables like jewelry, against which credit has been provided.

This study examined that how Islamic based microfinance can contribute effectively in the establishment of microenterprises, ensuing in women empowerment, ensuring their development and socio-economic sustainability and eventually alleviating poverty from the society. As a tool for poverty alleviation and sustainable development, the study focused on microfinance with respect to three interdependent and interlinked perspectives; financial sustainability, better social capital and women empowerment. It was found that Islamic based microfinance is an effective, more realistic and better intervention for these women entrepreneurs, their empowerment and poverty eradication from the society. The study concluded that Islamic based microfinance can bridge up the gaps of conventional microfinance, such as, low access to microfinance, income related gaps, high interest rates etc. and can play a pivotal role in reducing poverty and eventuating in sustainable development of the society.

Methodology

The twenty five potential women entrepreneurs, who were availing microfinance from Akhuwat (Islamic based interest free microfinance institution), were selected through purposive sampling strategy for conducting case studies in this qualitative research study. After acquiring data from Akhuwat, women who have established their small businesses and contributing to the family income were selected from different areas of Lahore. Few of them had small production units and were taking orders for garment making and bridal dress making from the market. After doing beads work, embroidery and stitching, they provide the finished products to the shops for sale. Some of them were managing small shops adjacent to their homes, while the others

were running their own businesses in the market like book shops, grocery stores, beauty parlours in rented shops. The tool used for data collection in this research was semi-structured interview guide. The content analysis was done for analyzing the data.

Study Findings

Entrepreneurial Potential

In this study, while responding to various queries about establishing microenterprises and increasing their existing businesses, the respondents expressed their profound concern for acquiring more finances from Akhuwat (interest-free Islamic based microfinance organization) and divulged numerous means that how they intend to increase their businesses.

"I do not want to take interest based loan from anybody or any NGO I intend to get microfinance of Rs. 70,000 or more, so that I can enhance my business to a large scale".
(Respondent 9)

"I wish to increase my business. The organization sanctioned me Rs. 20,000, I want Rs. 60,000. I can easily pay the installments if the organization gives this much loan to me". (Respondent 23)

The women entrepreneurs, who did not face lack of mobility and social exclusion due to gender disparity, were eager to develop their microenterprises out of their homes. They showed their interest to get work orders directly from the marketplace and were willing to do their business in direct contact with the native markets. Even though, some of the respondents were facing socio-cultural restraints and gender restrictions, but being living in urban area, few respondents were getting orders from the market through intermediaries or from local shops. It was found in the study that contact with the local market was considered imperative by these entrepreneurial women to enhance their business.

"If can get more amount from Akhuwat, I intend to open my own boutique so that I can earn more money". (Respondent 5)

"I want to develop a garment manufacturing unit. I want to take orders from the market I want more amount from Akhuwat, around Rs. 55,000, to increase my work".
(Respondent 25)

The women engaged in 'papad' making were keen to acquire greater amount of microfinance. They knew that then they can

hire more persons for selling ‘*papads*’, which was the critical factor for their business. The study revealed important dimensions, like these women were completely cognizant with the factors which have vital impact on their businesses; which depicts their strong business acumen, entrepreneurial abilities and potential to manage their economic ventures.

“I intend to take loan as many times and as much amount as they can lend for enhancing my business. If the organization lends me Rs. 50,000, I can expand my business and can pay the installments without difficulty”. (Respondent 13)

This study depicted that external financing, to manage and expand their businesses, is always needed by these poor entrepreneurial women. The business income is generally expended to manage household expenses. Hence, their financing needs must be appropriately addressed to pull them out of the poverty circle.

“Like everybody, I also wish to increase my work but I do not have funds for expansion. My income is consumed in my domestic expenses. After completion of this loan, I wish to take another loan. I intend to take Rs. 50,000 this time”. (Respondent 20)

The women, who were getting orders through a subcontractor or an intermediary, exhibited their distress working through them. According to them, these intermediaries were paying nominal amount to them, in spite of their tiresome labour, and were getting major part of the profit. The respondents expounded that they can get rid of this exploitation only if they have ample capital amount, provided as interest free microfinance. Their lack of access to capital amount and lack of mobility were found to be the major reasons for their susceptibility and this exploitation. They will be able to have direct contact with the market and come out of this exploitation if the capital amount is made available to them in the shape of interest free microfinance.

“After manufacturing garments I sell them in the market to a whole seller. He sells to the retailers. Mainly whole seller gets substantial part of the profit. He purchases from me at a less price and sells to the retailers at a much higher cost”. (Respondent 7)

“A person also takes envelopes from my shop. He sells envelopes in the market to the whole sellers. Due to my

husband's restriction, I cannot visit the shops for selling envelops..... he gets the lion's share from this business and I get a very low share". (Respondent 11)

In developing countries, the increasing informal economy and women as major constituents due to poverty, exploitation of the intermediaries, lack of access to the market, family's major reliance on women income and their economic activities, and above all, their own eagerness to enhance their business manifests their strong potential to develop their self-owned and self-managed enterprises.

All the traits which are rudimentary for developing enterprises were found in the present study. The women were cognizant of social and economic pressures, repressive working and living conditions, social exclusion and gender discrimination faced by them. However, concomitantly, they wanted to improve their existing circumstances and come out of the vicious circle of poverty. The most significant requirement expounded by the respondents was access and provision of interest-free microfinance to enhance their economic activity/business and develop an enterprise.

Interest-Free Islamic-Based Microfinance

The study respondents expounded the major reason to like Islamic based microfinance that these loans are without any interest. In the present study, overall an abhorrent attitude was observed against interest in the study respondents due to different reasons. All the respondents, whether Christians or Muslims, reported that the interest or '*riba*' is extremely prohibited and condemned in their holy books; the Bible and the Holy Quran. They expounded that taking funds on interest and payment of interest is prohibited '*haram*' and it is contrary to the religious teachings of both religions. The respondents believed that the business which includes interest cannot become successful as it does not contain blessings '*barkah*'. According to a study, in Muslim countries, majority (72%) people ruminate that formal pecuniary products are contradictory and incompatible with the religious teachings and, due to restriction against interest, they do not avail conventional financial services (Honohon, 2007).

"I do not like interest that's why I had never taken loan from any NGO or bank as they demand interest on loan

money. The interest based loan is not advantageous and the business does not flourish with this amount rather bear losses. Our religion strongly prohibits this and its against the orders of the God. Interest free loan can easily be returned without any burden. Loan taken from bank or NGO is very bothersome and takes a long time to return the loan". (Respondent 2)

"Both interest payee and receiver are sinful. Due to its bad effects, it is restricted in our religion. He finds no way to come out of it as the interest exploits helpless persons..... It is also a reality that borrowing money is a compulsion for the poor, but the interest is high handedness". (Respondent 1)

"I believe that there is no saving or success in the business which is involves interest based loan and there is no blessing in the business where interest is involved". (Respondent 16)

"Interest is a sin. That's why; I took loan from Akhuwat as it is interest free. Our circumstances have become better after acquiring loan from Akhuwat". (Respondent 24)

The women also revealed the exploitative and unfair nature of interest as another reason of hesitation to avail interest based loans. In this study, the bad experiences of interest based loans were expounded by women entrepreneurs. These women narrated the awful incidents which happened while taking or repaying those loans.

"Organizations and people exploit our poor circumstances and our needs, I took loan to solve my emergent problem and I was having no option at that time,...I knew the consequences. It paid that loan in a long time". (Respondent 15)

The poor household conditions of these women also do not permit them to access interest based formal financing as they are never in a position to pay the interest amount.

"When it is difficult to feed our children, it is extremely difficult to pay interest on loan amount". (Respondent 17)

The interest is considered as an administrative cost in traditional microfinance system; a cost for usage of funds, or a 'compensation cost' for the deflation of money with the passing time. This system promotes the venture capital or equity investment approach and contend it as profit sharing with the funds providing organization.

This underlying philosophy cannot be helpful and applied on these women entrepreneurs as they belong to informal economy, work in unregistered mode with verbal transactions and face high work provision variations. In consort with this, these women were illiterate and poor and were unable to distinguish between their earnings along with their domestic expenses and the profit they make from their businesses.

"I was bound to take interest based loan from different banks and NGOs due to my domestic circumstances. My condition and problems pushed me for that. Nobody lends even Rs. 10 in difficult times. Now I took and will only take loan from Akhuwat". (Respondent 21)

It was found in the study that those women, whose husbands were unemployed, were more susceptible to numerous risks and unforeseen expenses in comparison to those whose male counterparts were earning. For such women, making profit predictions on the basis of their economic activities becomes extremely difficult.

"I have one son and four daughters and my husband is a sweeper at a marriage hall. He gets seasonal work. He earns some amount when the marriages season comes". (Respondent 19)

Due to their engagement in low income activities and poverty, these women were not in a position to pay interest amounts on acquired loans.

"Actually, paying interest is a religious and financial loss,..... I do not like and even cannot pay interest. The organizations take two to three extra installments. It is very difficult to repay the interest based loan as it keeps on increasing". (Respondent 22)

"I make and sell 'papads'. Sometimes there's no sale at all and sometimes the sale amount is as low as Rs. 100 to Rs. 150. Due to rain and load shedding of burning gas, we have no income in the whole day". (Respondent 17)

"My income is uncertain. Sometimes, there is no income at all. On an average, I earn around Rs. 900 daily. In some months I earn Rs. 9,000 and sometimes my earning is more than Rs. 12,000 in a month". (Respondent 13)

The Christian were also benefitted from “Akhuwat” as they had taken interest free microfinance from this organization. Due to chronic poverty, these poor people avoid interest as they were incapable to pay any amount over and above the loan amount and another main factor was their disliking for interest based microfinance on religious grounds.

“The interest receiver and payee, both are hellish according to our religion (Christianity). Formerly, I took loan from a bank, I paid two extra installments. Now, I took this loan from Akhuwat. It is interest free and I do not have to pay any extra amount as interest”. (Respondent 11)

“In Christianity, taking interest based loan and paying of interest is sinful. My family is strictly against it and they prohibit me..... I pay the installment to Akhuwat without any difficulty”. (Respondent 6)

Interest free micro-loan, empathetic and munificence in its approach, ascertains an image of fundamental right to live with self-esteem and pride and, simultaneously, as social-beings require cooperation and social support. Whereas, to be ‘bound’ and paying interest as an extra amount is against the human esteem and leads to exploitation.

Discussion & Conclusion

This study revealed that these entrepreneurial women were contributing a lion’s share in their family income. Regardless of facing numerous risks like illiteracy, social exclusion and poverty, capital/finances were expounded as the most important need by the respondents. The microfinance needs to be discussed with reference to the development archetype. The traditional microfinance approach has proven to be unproductive, costly and even perilous in tackling the problems of impoverished segments of the society like these entrepreneurial poor women.

The conventional microfinance institutions need to be looked at within a new perspective. Microfinance organizations are imperative for sustainable fiscal development and poverty eradication. Islamic based interest free microfinance focuses on under developed and developing countries, where substantial portion of the society is involved in informal economy and leads poor lives. It concentrates on poverty with development perspective which further directs for the improved consideration of

the 'poverty dynamics' and 'poor's viewpoint'. It's ideology focuses on poor impoverished segments of the society as a more enchanting approach to decrease their susceptibility to poverty instead of conventional microfinance institutions which grind them in the vicious circle of poverty on account of high interest rates and extremely business centered approach.

The traditional microfinance approach has been disparaged for its being 'business oriented' approach instead of focusing on poverty reduction. Almost 2.8 billion people in the world are living below the poverty line. This dreadful global poverty status itself reflects the failure of traditional microfinance in poverty elimination.

Contrary to the mere 'business logic' and the 'profitability' concept, the Islamic based microfinance given to the poor enables them to endeavor for self-sufficiency and to earn a decent living through dignity, buttresses the conviction of brotherhood, integrity and compassion. It believes in 'value inspiration' and works through mutual support mechanism and social cooperation and eventually guides to achieve the objective of 'development'. It is an effective tool for the collective mobilization of poor to come out of vicious circle of poverty.

Interest free Islamic based microfinance is an adequate approach for the marginalized segments of the society, predominantly for these poor women entrepreneurs. The formal microfinance organizations are owned and operated by the profit seekers and investors, instead of poverty alleviation objective. Due to this, the conventional microfinance, initiated and expected to work for resolving the issue of poverty from the society, occasionally itself becomes a component of the problem. These microfinance organizations have deviated from their initial philosophy of welfare oriented approach. These have started considering poor as a market segment and a business opportunity.

The religious beliefs and Constitution of the country provide for economic sustainability and financial liberty as a basic right to every citizen but unfortunately most of the people are deprived of this right. Furthermore, the irony of the situation is that substantial majority of poor comprises of women and they are the most divested part of the society. The economic sustainability will give the women a stronger status and role, not only at household but at

community level also. These women will be able to develop better social capital through training, education, etc.

At the national level, the mainstreaming of women for sustainable development can enhance the socio-economic prosperity of the country. The women can attain the confidence to ascend financially at local and national level as microfinance can provide them an opportunity to prevail over their exploitation. Microfinance has emerged as a vital instrument which supports gender equality and assists to decrease poverty in the society by women mainstreaming in the society. Microfinance programs should focus their services for women empowerment. The study findings explicitly depict that the provision of Islamic based interest free microfinance has enabled women to access the financial intermediation and has encouraged them to contribute more actively in their household and their economic activities.

Keeping in view the circumstances of these potential women entrepreneurs who live in poverty, require microfinance for establishing their enterprises; and the predicaments related with traditional microfinance, such as, uneasy access, interest, etc., make the Islamic based microfinance an effective and better solution to facilitate these potential women entrepreneurs to come out of the poverty trap.

This study concludes that interest free Islamic based microfinance is a better approach and provision in comparison to traditional microfinance for these poor entrepreneurial women due to various rationales. In the present study, general abhorrence was observed for interest based microfinance. The respondents were psychologically contented with interest free Islamic based microfinance as it is in accordance with their religious beliefs. These women were incapable to pay extra amount more than the loan amount due to their poverty. The respondents felt this convenient to take interest free microfinance and undertake the financial activity within their houses, as they were able to carry out the domestic responsibilities and economic activity together, which is in accordance with their gender segregated role expectations and existing socio-cultural conditions. The facilities and provisions, which they were not able to access formerly, now with the provision Islamic based interest free microfinance, their domestic and economic circumstances have improved and they were found

availing facilities like education, medical care and purchase of basic household items like television, fridge, etc. These Islamic based micro-loans have encouraged them to increase their economic activities and establish Small-Medium Enterprises (SMEs). The respondents graded Islamic based microfinance easily accessible in comparison to available traditional micro-credit provisions. The entrepreneurial women expounded their ever existing need for funds due to poverty and poor financial conditions. Some women experienced the informal financing sources (loan sharks) and forced saving mechanisms, but all of the respondents were of the view that the Islamic based interest free microfinance is a more feasible and practical alternative than the informal forced savings mechanisms or informal loan sources. The Islamic based interest free microfinance organization "Akhuwat" was also found to be maintaining strong social dimension which is appropriate for these entrepreneurial women as, along with financial support, they also require social intermediation like market knowledge, education, trainings, etc. The congenial attitude of field staff, easy loan sanctioning procedure and non-humiliating loan recovery mechanism, easy accessibility and flexibility in the system makes Islamic microfinance a generally expedient provision which these women entrepreneurs can avail.

The study concludes that for these entrepreneurial women, the interest free Islamic based microfinance is the most appropriate intervention for empowering them at family and community levels, to bring economic sustainability, developing good social capital, reducing poverty and gender gaps among these potential women entrepreneurs and eventually resulting in sustainable development and overall welfare of the society. Concomitantly, Islamic based microfinance motivated and encouraged these women to expand their economic ventures to become better entrepreneurs, as respondent manifested great rigour and potential to enhance their existing microenterprises.

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