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BOOK REVIEW

ISLAMIC MICRO FINANCE DEVELOPMENT: CHALLENGES AND INITIATIVES

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In recent times, Islamic finance is getting attention from various fields and Islamic Microfinance (IM), of course, as a branch of it has been well accepted by many countries particularly to address the poverty issue. In fact, any discourse on IM and its various stages of development is a matter of great challenge where its conventional counterpart is already firmly in place despite its interest-based transaction to the Muslim borrowers. With this in mind, the authors of this book have done a remarkable job that contains various aspects of Islamic Microfinance. This book is basically divided into eight sections with the opening or forward, acknowledgment and executive summary.

Section one sheds light on a couple of models and principles of Microfinance. In the modeling part, the authors mention about Bangladesh, Indonesia, Morocco, India and Sri Lanka where Microfinance Institutions (MFIs) are successful towards poverty alleviation because of its small and short-term nature of loans, quick disbursement and timely repayment, service quality and most importantly its joint liabilities system. Moreover, the group-based lending concept mitigates the default risk and facilitate other operations of the MFIs. The Grameen Bank model in Bangladesh, the originator of group lending concept, is the pioneer of MFI which later on was replicated in Malaysia (*Amanah Ikhtiar Malaysia*), Syria (*Jabal al-Hoss*), Latin America and Africa. Another model, the Credit Union which fully relies on mutuality, mobilizes savings and sanction loans for productive sectors. The Self-Help Groups (SHGs) in India is another popular model where the homogeneous income group is fully supported by NGOs (pp. 1-4). The Islamic Microfinance (IMF) is much concerned about the poorest of the poor who are eligible to receive *zakāh* and *ṣadaqah*. The IMF institutions deal with a profit-loss sharing system and firmly believe in family empowerment, while conventional MFIs, in most cases, charge high rates of interest with the emphasis on women empowerment (pp. 6-8).

Section two of the book presents an overall scenario of the poor people in the Islamic world. According to the authors, more than 1.2 billion people live in the Islamic world. The first group includes Indonesia, Bangladesh and Pakistan, Nigeria, and Egypt (528 million poor people), and the second group consists of Afghanistan, Sudan, Mozambique, Turkey and Niger (more than 600 million people are poor), where people have an average income of less than $2 a day. The most recent study shows that Microfinance services are now available in 160 countries (pp. 9-10). The authors then draw attention to the foundation of Islamic Microfinance in section three. They mention about *zakāh* and *ṣadaqah* as the key instruments curbing the menace of poverty. In a case where the actual collection of *zakāh* and *ṣadaqah* is not enough, the IMF institutions can mobilize resources through various modes of savings deposits or can even attract capital from the local Islamic banks and the capital market. Besides, an Islamic approach to poverty alleviation will be free from all kinds of *ribā*, *gharar*, *jahl* and *ḍara* (p. 15). After that, the authors point out three types of *Sharīʿah*-compliant instruments under microfinance scheme: firstly, the different types of instrument used for mobilization of funds, for example, charity (*zakāh*, *ṣadaqah*, *awqāf*; *hibah* and *tabarru'*), deposits (*wādiʿah*, *qarḍ al-ḥasan* and *muḍārabah*) and equity (*mushārakah* or the modern stocks); secondly, the four categories of financing instruments such as participatory profit-loss sharing modes (*muḍārabah* and *mushārakah*), sale-based modes, (*murābaḥah*), lease-based modes (*ijārah*) and benevolent loans (*qarḍ*) and finally, the risk management instruments which are based on the concept of guarantee (*kafālah*) and collateral (*ḍaman*) (pp. 18-22).

The authors bring into focus the concept of Islamic MF infrastructure at the micro level and meso level in sections four and five, respectively. They argue that MF providers can treat well to the marginal poor people at the micro level (p. 23). There are mainly two types of MF providers, i.e., informal and formal. The informal MF providers are classified into individual providers and collective clubs or associations whereas the formal MF providers include a good number of institutions like banks and others having technical skills to handle microfinance (p. 25). Next, the authors provide a short overview of successful IMF providers in different parts of the world, such as the *Sanadiq* project at *Jabal al-Hoss* in Syria, the *Mu'assasat Bay Al-Mal* in Lebanon, the Islamic Bank Bangladesh, the Social and Investment Bank Bangladesh, *Tabung Haji* (established for the Hajj expenditure of poor farmers) in Malaysia, *Baitul Maal wal Tamwils* (BMTs) in Indonesia, GTZ (German Technical Cooperation) in Northern Mali (pp. 26-30). These MFIs have to face many challenges like diverse organizational structures, *Sharīʿah* compliance, lack of product diversification, linkages with banks and capital market, etc., which can be tackled by adopting a number of strategies.For example, the unresolved *fiqhi* issues can be settled through a dialogue, and the problem of product diversification can be addressed by introducing a diverse range of financial products covering saving-investment, insurance, remittance and other services. The authors refer to the case of BRAC in Bangladesh as it successfully introduces Micro-Credit Securitization which can be replicated in IMF through a special purpose vehicle (p. 38). After that, the authors bring the concept of Islamic MF infrastructure at the meso level with the arrangement of education and training, better coordination and networking, technical assistance, provision of rating services, etc. The Islamic Development Bank (IDB) for instance, provides financial and technical assistance to its member countries and the Islamic Research and Training Institute that is a member of the IDB Group which initiates research and training programs for the development of IMF (p. 41). The authors also state a number of challenges of IMF that includes the payment system, transparency and information infrastructure, education and training, and networking that can be settled in various ways.For example, the technical assistance to develop the infrastructure of Islamic MF can be facilitated through *awqāf* and *zakāh* funds (pp. 42-6).

The authors place emphasis on IMF regulatory and policy framework at the macro level in section six. The government supports poor people through initiating various policies such as liberalizing interest rates, and establishing banking regulation and supervision, contract enforcement, business registry, collateral confiscation, property rights, and taxation that affect the whole financial system. The regulatory body of Islamic financial Institution like Auditing Organization of Islamic Financial Institutions (AAOIFI) and the Islamic Financial Services Board (IFSB) can contribute to the development of IMF (pp. 47-51).

In section seven, the authors focus on various international donor institutions such as the World Bank, the Asian Development Bank, the Inter-American Development Bank, and the European Commission and their contribution to alleviate poverty whereas the Islamic Development Bank is the single largest fund provider of IMF in its member countries. The donor institutions also offer a wide range of services like policy support, technical assistance, grant, loan, quasi-equity, equity investment and guarantee. They also assist the national and the local governments in the functioning of various social services. The Deprived Families Economic Empowerment Program (DEEP), being the most notable one, offers financial and non-financial services to meet the needs of the poor in Palestine (p. 53).

In the final section, the authors recommend that in conjunction with various government bodies such as Ministries of Finance, the monetary authority and the capital market authority, the IDB can play an effective role in improving the services of the IMF sector at all levels. They provide some other suggestions: firstly, at the micro level, attention must be given to create *qarḍ al-ḥasan*-specific funds, to develop micro-*takāful* products and services, and to design the Credit Guarantee Scheme; while secondly, at the meso level, emphasis should be given to construct an Islamic inclusive financial system, to initiate training and education programs of MF, to create *zakāh* and *awqāf* funds at a global level and to create a rating mechanism for IMF institutions. Lastly, at the macro level, importance should be given to develop a regulatory framework, to assist the integration of *zakāh* and *awqāf* in financial reform, and to create a friendly network among microfinance providers and other stakeholders for the overall development of Islamic MF (p. 69). At the concluding part of this book, a summary of poverty levels, access to financial services, regulatory framework for MF Institutions and Islamic Financial Institutions in IDB member countries are provided in tabular forms that enhances its applicability to the researchers and academicians (pp. 70-6).

Overall, the authors deserve much appreciation as they produce such a timely and worthwhile exercise, though a few points need further attention. Firstly, the book lacks in detail explanation of what makes IMF superior to its conventional counterpart, for example, it remains somewhat obscure to the readers as to why IMF supports family empowerment rather than women empowerment. Again, there is a dearth of discussion on the risk management issue under the IMF. Secondly, there is a paucity in explaining the operational aspect of *murābaḥah* with *bayʿ bithaman ājil*, *ijārah*, *bayʿ al-salam*, *muḍārabah* and *mushārakah* where the partners of IMF Institutions are the marginal poor. The implications of all these modes widely used in Islamic banking and finance (bank's clients/partners are relatively well off) might not be effective to the clients who are relatively financially worse off. Moreover, the authors put forward a number of insurance policies from Islamic perspective; however, they gloss over the case of micro-insurance during the time of natural calamity/disaster. Thirdly, the authors to some extent failed to disseminate the idea of organizational development in terms of transferring fund to the poor people. Finally, the concept of securitization and its operational framework under the IMF has not been discussed in detail. Taken as a whole, considering a few drawbacks, the authors endeavor persistently to demonstrate the development aspects and some emerging challenges of Islamic Microfinance which would obviously contribute to the future growth and advancement of this industry.