

# Chapter 22

## Interest-Free Micro-Finance Without Any Religious Connotation: An Inclusive Global Model

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### ABSTRACT

*The purpose of this chapter is twofold: to investigate the relevance and the significance of interest-free formulae for conventional microfinance in non-Muslim countries, (with no religious connotation), and to lay out the foundation of a global interest-free microfinance model. The major result is that the interest-free Musharakah is just a simplified limited liability with limited duration conventional partnership. Sales-based Murabahah can also be a rewardable complement to interest. Islamic Ijarah is a leasing formulae also practiced in Europe and Africa. Salam is not far from conventional forward contract. Other finance formulae can also be used by conventional lenders to 'complement' the interest rate. These results, contrary to the general belief, concluded that investment formulae of the two systems are not far from each other. Moreover, interest-free formulae are practiced in Africa without being related to Islam. This indicate that if we look at the interest-free formulae from the point of view of their usefulness, and not from a religious point of view, these will have universal applications without being identified as Islamic. The chapter lays out the foundation of a global interest-free microfinance model capable of serving Muslims and non-Muslims alike.*

### INTRODUCTION

Two major forms of ownerships, such as private and state ownership, have characterized the human experience in the economic domain. At the same time, it is stated in the Holy *Qur'an* (Islam) that money and every other asset belongs to none other than Almighty Allah (*Subhanahu wa Taala*). Humans only possess but do not own any assets. However, it is conventional banking 'money prices,' interest-free

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banking, and ‘the price of goods and services,’ that create real wealth in a society leading to economic wellbeing. Investments in Islam have a ‘dual function’ for the benefit of both the investor and the community, i.e. individual interest in investments must be compatible with the community’s interest.

This way, the dimension of the “social function of money” is existent in Islam. Interest-free banking transactions are ‘asset-based,’ and interest-free banks actively participate in trade, leasing, production, and in sharing profits with their depositors. Owners of resources must abide by the laws provided by God and act accordingly i.e. ensures that their interests are compatible with the interests of the community when they are investing. In this way, Islam brings into existence the dimension of the social function of money.

Microfinance has been drawing significant international interest and attention since the nineties. Until now, microfinance has not covered a significant number of the poor, as it was expected to do, despite the elapse of a rather long period since it was brought into application. The experiments in Islamic microfinance were based on a number of models and mechanisms and were not fully integrated into the financial system, as they are undergoing the trials phase and have yet to develop their conventional counterparts, particularly in volume and type. According to Ibrahim (2013), Islamic microfinance, based on past experiences, is considered to be an isolated trial in the discussion of finance. Despite these facts, the author still believes that there exists many opportunities for the application of a lucrative type of interest-free microfinance to be implemented on a large-scale.

Moreover, several researchers have mainly focused on sustainable versus charity-based conventional and interest-free microfinance (sometimes called welfarist versus institutionalist microfinance). The literature distinct between Financial System Approach to micro-finance (microfinance integrated to the financial system via sustainable financial institutions charging the full cost of financial services), and the NGOs Poverty Alleviation Paradigm (provision of government funded credit at below market rates of interest), (see for example, Lansana, 2014, Morduch, 2000, Woller, Christopher & Warner, 1999). Moreover researchers major topics in microfinance discussed issues such as sustainability, donors’ role, financial inclusion, payment service delivery, governance, products and services, management practices, clientele targeting, regulations and policy, and social and financial performance assessment (see for example, James and Gary, 2004 ; Ledgerwood, 2012; Lansana, 2014). Researchers do not undergo examination of the performance of Islamic microfinance in comparison with conventional institutions or even the relevance of the former lending to the latter. For the benefit of non-Muslim countries, the author believes that the relevance of interest-free modes of microfinance to interest-based one is feasible. The author also believes that the market-based, interest-free microfinance without religious connotation will have acceptance and applications worldwide.

While conventional microfinance has successfully reached large numbers of the poor in developing countries, there is evidence to suggest that there are many potential clients of microfinance that categorically reject products that do not comply with interest-free principles. This is in itself escalating the demand for interest-free microfinance (Ibrahim, 2017a). No doubt, there is a high demand for Islamic microfinance, judging by a high unemployment rate, poverty, and low levels of financial access in Muslim minority countries. On the other hand, the author believes that the factual Islamic microfinance model is not well understood by practitioners, regulators, consultants, and academics, etc. Moreover, the past experiences can only be considered as isolated trials, and there exists many opportunities for the application of this type of finance on a large-scale. The main challenges are the lack of support by the governmental regulatory framework, and lack of a sustainable model for Islamic microfinance, and a number of conditions drawn from the coming microfinance institutions that will follow good practices. On the other hand, it is generally claimed that “*Shari’ah*-compliant partnership financing that is a sus-

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