

# Islamic Microfinance

Balancing between Business & Social  
Responsibility



A Humayon Dar Presentation

# Introduction

- What is Islamic microfinance
- Issues in Islamic microfinance
- The role of charity in Islamic microfinance
- A proposed model for Islamic microfinance

# What is Islamic microfinance?

- Micky Mouse of conventional microfinance
- Conventional microfinance subject to observance of shari'a requirements
- Based on murabaha, salam and musharaka
- The economic objective is to mimic risk-return profile of conventional lending microfinance
- Does Islamic microfinance really have to be a Micky Mouse of conventional finance?

# Microfinance Business

- Tapping an untapped market - the rural poor
- "Empowering" women
- Organised lending for above market interest rate
- Some microcredit lenders charge cumulative rate of interest in excess of 30%

# Social Responsibility in Islam

- Community development versus doing business
- Food, clothing and shelter
- Helping the poor and cooperation for the (social) good
- Charitable function

# A New Model for Islamic Microfinance

- Based on the "Khanqahi" system of Muslim sufis
- Similar to catholic monastery system
- A comprehensive approach to community development
- Need for modern application of the Khanqahi system

# Khanqahi Model for Islamic Microfinance

- Developed around a residential community
- All member families contribute to the economic activity organised under a Khanqah
- A Khanqah can be developed with the help of a
- private equity firm - micro private equity investment
- Objective should be transformational development rather than empowerment of <sup>7</sup>

# Modern Day Examples

- Invest Africa Fund
- Charity Bank
- World Zakat Fund