

Microfinance in the Arab World: Shaping the Industry's Future

First Annual Conference of SANABEL, Microfinance Network of Arab Countries

Micro-credit Through Bai-Muajjal Mode of Islamic Banking
Financing: An Unique Means of Institutionalization and
Development of Saving Habits Among Small and
Cottage Industry Owners

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Micro-credit through the Bai-Muajjal Mode of Islamic Banking Financing



- General Overview about Islamic Lending
- Small Industry Financing Sources in Bangladesh
- Microfinance through Bai-Muajjal Mode
- Bai-Muajjal Lending Procedures
- A differential view from conventional banking
- Contributions and constrains of Islamic Lending
(Overview based on studies in Sudan, Turkey, Cyprus, and Bangladesh)
- Challenges for Islamic Lendings
- Considerations to apply Islamic Microfinance
- To other countries

General Overview about Islamic Lending: Systems without the involvement of interest



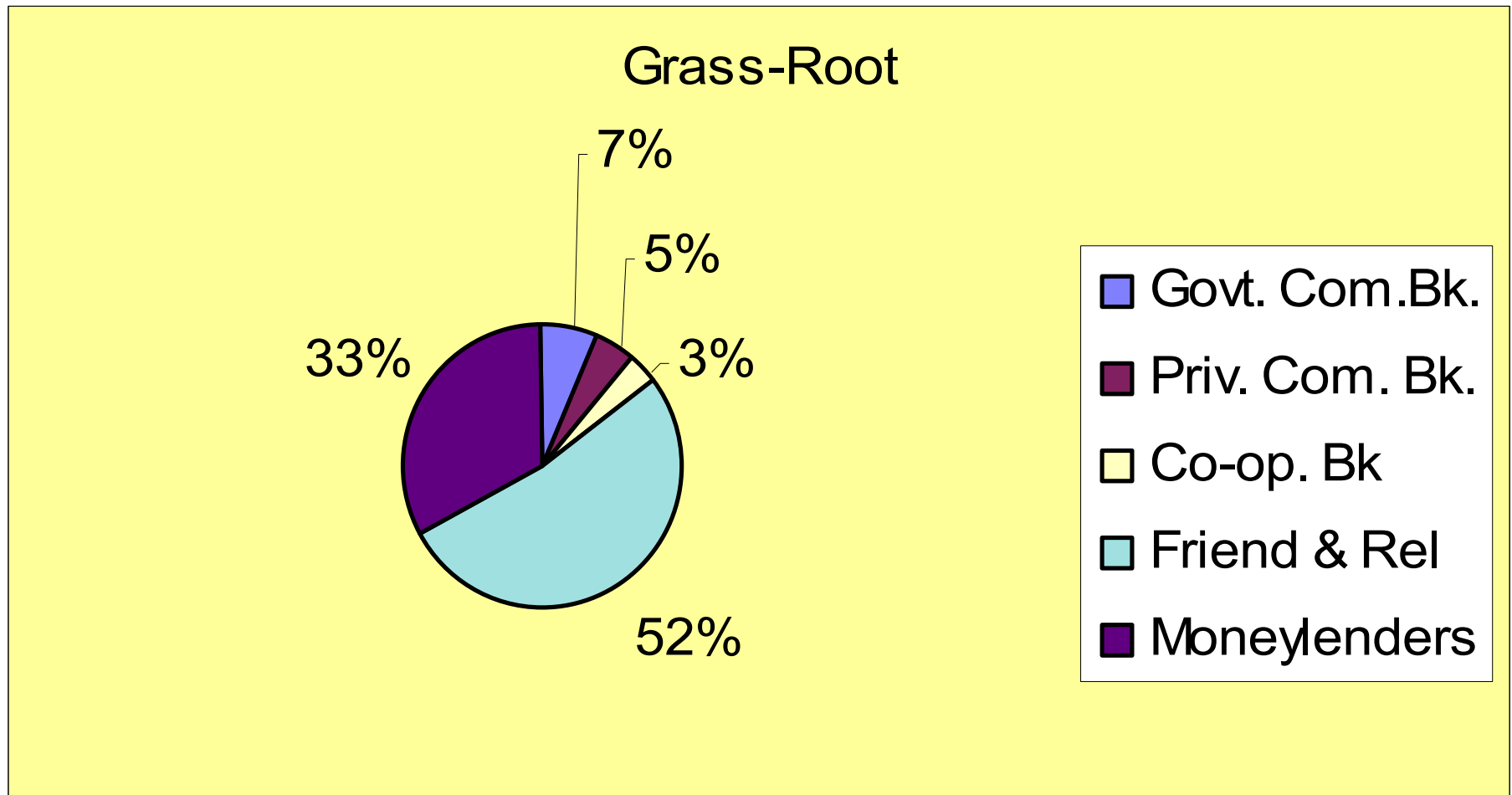
ELIMINATION OF INTEREST-BASED
TRANSACTIONS AND
ESTABLISHMENT OF
PROFIT OR LOSS SHARING
PRINCIPLES

ESTABLISHMENT OF A JUST
AND BALANCED
SOCIO-ECONOMIC ORDER
FREE FROM ALL
KINDS OF EXPLOITATIONS

CHARACTERIZED BY
A TRUST BASED BANK-
CLIENTLE RELATIONSHIP

IN-KIND LENDING POLICY:
A DIFFERENTIAL VIEW OF
LENDING TECHNIQUES TO
DETERMINE THE PROPER USE
OF BORROWED FUNDS

Major Sources of Funds for Grass-Root Level Small Industry Owners in Bangladesh

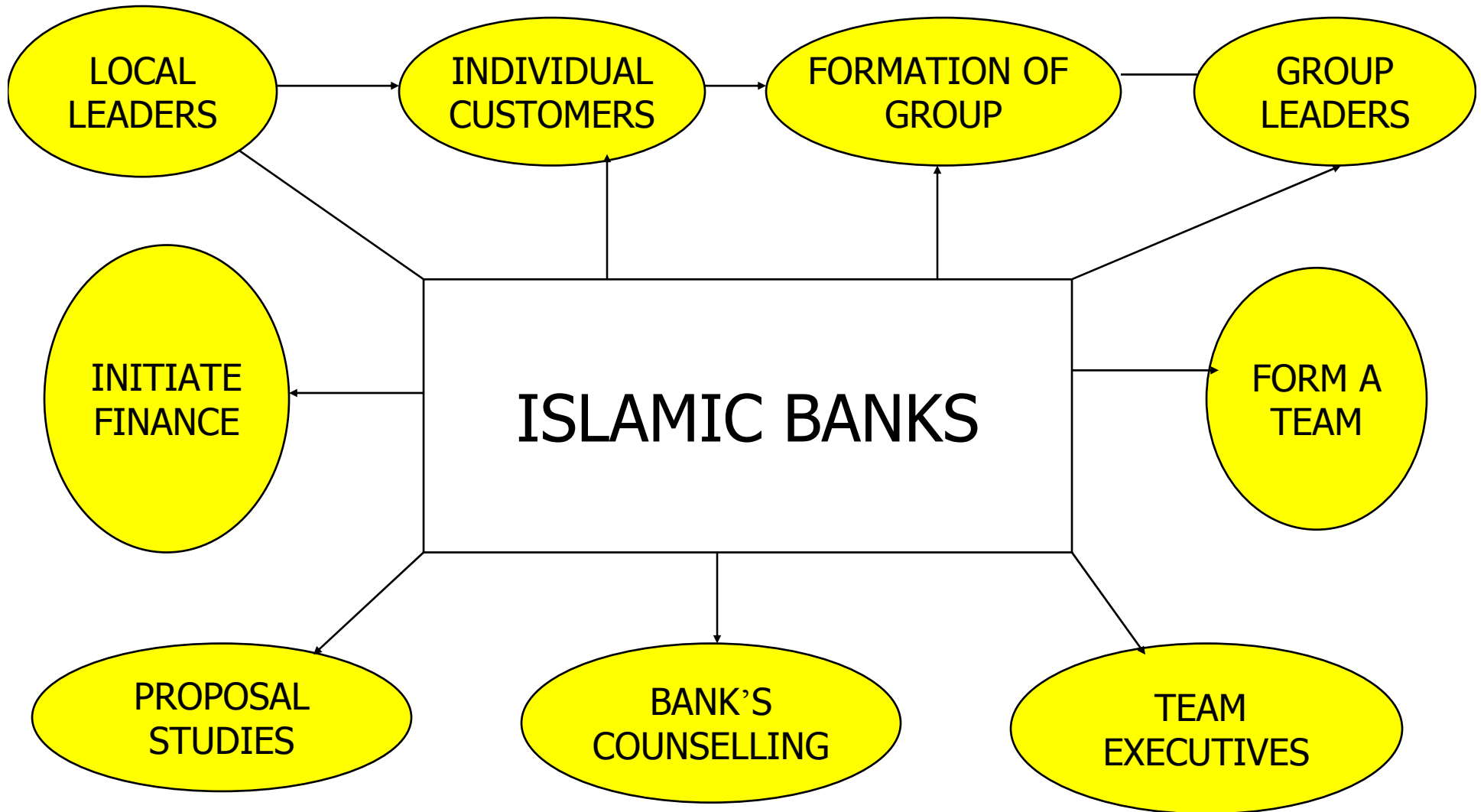


Micro-credit Through the Bai-Muajjal Mode of Islamic Banking Financing

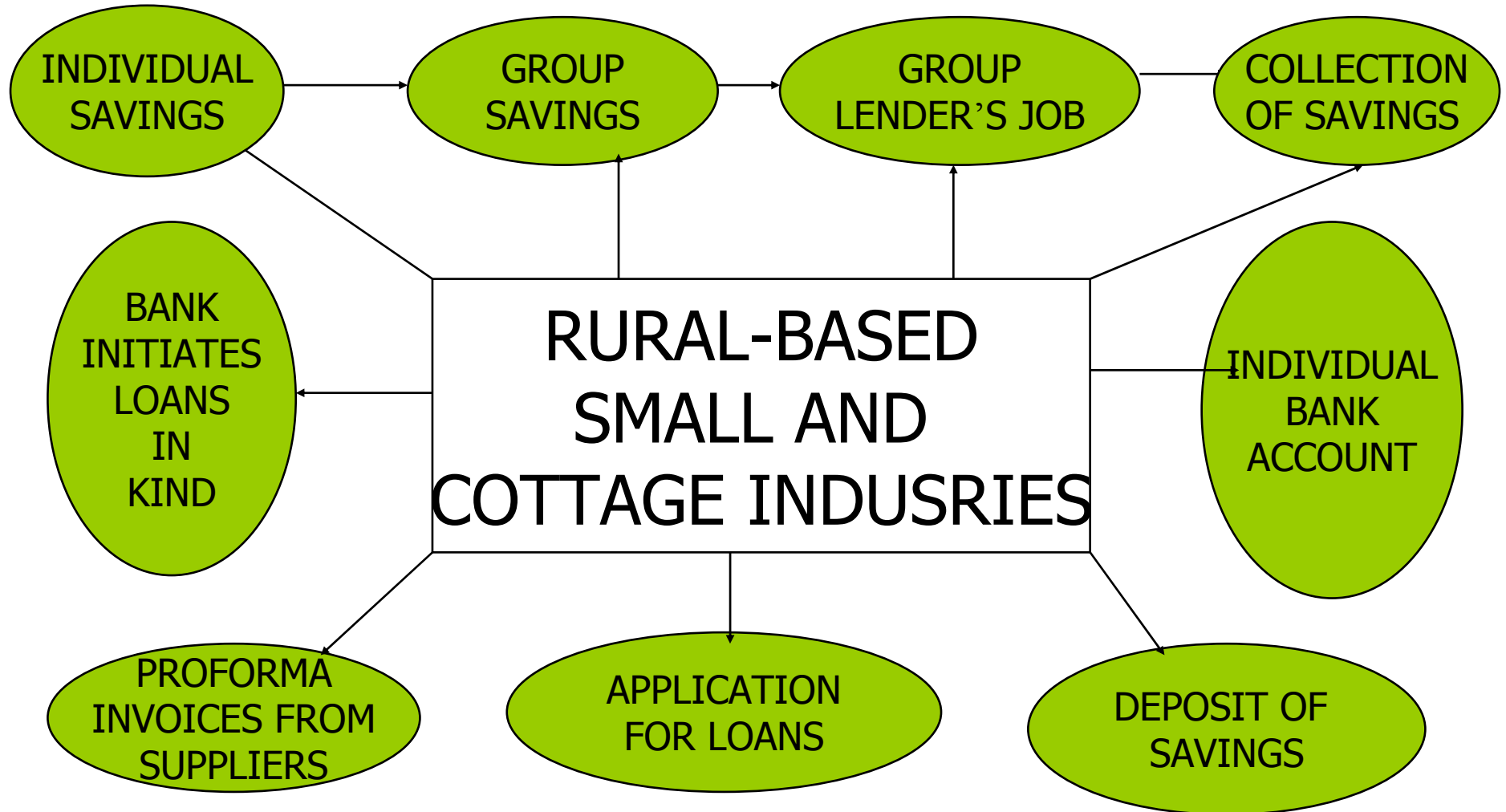


Microfinance to Small and Cottage Industries in Bangladesh by Islamic Banks through Bai-Muajjal Mode of Financing

Islamic Banks Initiate Networking



Customers Initiative to Obtain Loans



How the system differs from a conventional lending



- Customer Contact
- Loan Giving Procedures
- In-Kind and In-Cash Loans
- Educating Customers
- Direct Observations of Activities
- Supervision of Loans
- Realization of Loans
- Securities

Contributions & Constraints of Islamic Lending Systems

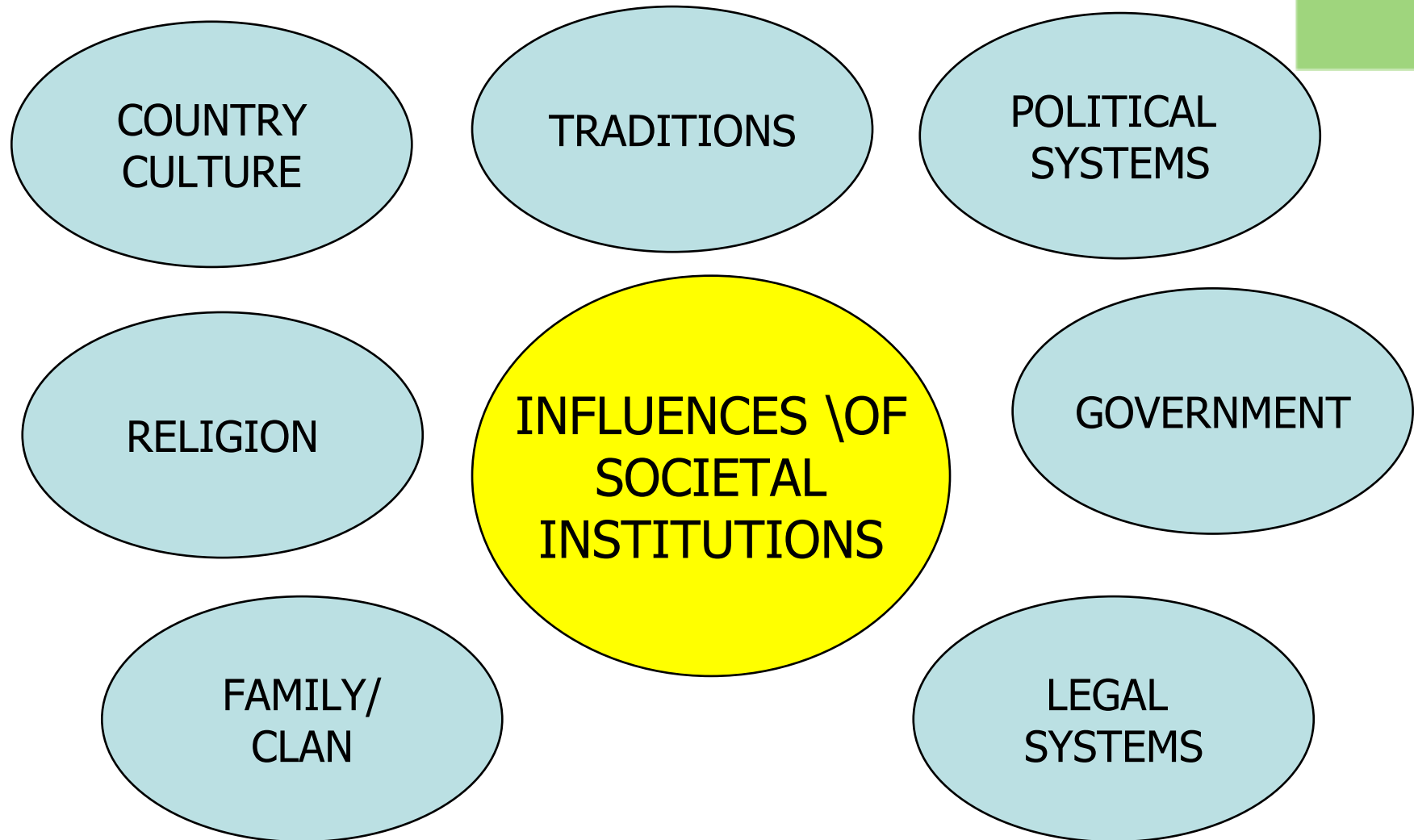
Contributions

- Develops an entrepreneur environment
- Promotes & Institutionalizes Saving habits
- Observes the utilization of borrowed funds
- Supervision of loans
- Develop Networks

Constraints & Limitations

- A new financing system in the money
- Market (Understanding issues)
- Problems in introducing fundamental (P & L) lending techniques
- No sharing of losses under the Bai-Muajjal lending mode
- Lack of public awareness
- Restricts only profitable projects
- Biasness a major factor in lending
- Predetermined profit
- Early loans repayment complications
- Defaulters get hard time
- Lack of liaison with other conventional Banks in the money market

Societal Sector Institutions Challenges for Islamic Banks



What might be considered to apply the Bai-Muajjal Financing in other countries



- A careful study of the societal sector institutions
- Educator small industry owners about Bai-Muajjal Mode
- Research on small industry sector
- Promote Bank-Customer relationships
- Experiment on a test basis with a few customers