

Islamic Microfinance for Sustainable Development

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About 1.2 billion people around the globe live in extreme poverty and 870 million go to bed hungry every night. The ILO estimates that almost 202 million people were unemployed last year, an increase of five million over 2012.¹ In this perspective a lot of thinking is going on to find practical solutions for the problem of widespread poverty. The idea of microfinance has received a lot of attention in the economic literature. Naturally, the Muslim economists also got interested in the idea as the Islamic laws of *zakāh* and *waqf* provided a lot of scope for adapting the concept in the Islamic framework. Despite its popularity in the literature, microfinance is available to merely 100 million people around the globe, out of which only a minority is Muslims. A vast majority of the Muslim poor do not avail of the conventional microfinance as it involves dealing in interest. That has diverted attention of the Muslim societies and Islamic financial institutions to find ways and means for providing microfinance on terms and conditions that are Islamic. The idea was to help the Muslim poor overcome their inhibitions and provide means for

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¹ Clark, Helen. 2014. Tackling poverty, inequality, and environmental unsustainability in the new global agenda: The role of solidarity and advocacy, UNDP, 18 May.
[http://www.undp.org/content/undp/en/home/presscenter/speeches/2014/05/18/helen-clark-video-address-on-tackling-poverty-inequality-and-environmental-unsustainability-in-the-new-global-agenda-the-role-of-solidarity-and-advocacy-to-the-third-world-congress-of-the-international-trade-union-ituc-/](http://www.undp.org/content/undp/en/home/presscenter/speeches/2014/05/18/helen-clark-video-address-on-tackling-poverty-inequality-and-environmental-unsustainability-in-the-new-global-agenda-the-role-of-solidarity-and-advocacy-to-the-third-world-congress-of-the-international-trade-union-ituc/)

improving their lot through religiously acceptable means of finance. That gave birth to the idea of Islamic microfinance.

The present book is a welcome addition to the scant literature on Islamic microfinance. An Introduction by Nasim Shah Shirazi provides the context and summarizes the outcomes of the individual papers providing an overview of the contents to the interested readers. The book brings together thirteen selected papers presented in a conference on “Inclusive Islamic financial sector development: Enhancing financial services for the microenterprises” organized jointly by Islamic Research and Training Institute (IRTI) and Sudan Academy for Banking and Financial Services in October 2011.

The book is divided into five parts. Part-1 addresses the efficiency of microfinance institutions; Part-2 addresses microfinance and poverty reduction, it consists of three papers providing case studies from Pakistan, Indonesia, and Nigeria. Part-3, consisting of two papers, provides comparative analysis of Islamic and conventional microfinance institutions in Bangladesh. Part-4 address the issue of job creation through microfinance. The two papers in this part focus on Sudan’s experience. Lastly, the Part-5 analyses the opportunities and challenges faced by Islamic microfinance in enhancing the financial inclusion.

The book provides thought provoking ideas and empirical work shedding light on the effectiveness of both the conventional and Islamic microfinance. It thus tries to draw attention of the academia and policy makers to some important aspects for the promotion of Islamic microfinance and micro-enterprise. However, there are six papers (#3, 5, 7, 8, 11 and 12) that are very technical, thus for an ordinary reader it is difficult to grasp their messages. Scholarship of the authors gets in the way of readership. Technical jargon without explanation has jeopardized accessibility of the text. Title of the book conveys the impression that the volume will discuss how Islamic microfinance can help in attaining sustainable development. However, the reader is disappointed to see that the subject does not come under discussion at all. It does not belittle value of the papers as such. It only speaks for an inappropriate title for the book. Perhaps, a better title could be: “Some aspects of microenterprise and Islamic microfinance”.

The rationale for Islamic microfinance lies in devising means that avoid interest as is present in conventional microfinance. However, the papers here do not directly deal with this aspect of Islamic microfinance to show whether it has succeeded in providing finance on better terms. Similarly, among the other factors relating to low financial inclusion of the poor are their inability or lack of confidence to interact with

formal organizations such as the microfinance institutions. Most of the poor are illiterate and cannot even sign a document. For them, dealing with a formal organization creates serious obstacles. Moreover, the backward and forward linkages with finance are also important for alleviating poverty. Even if we provide finance to the poor, if they do not have the managerial ability or decision-making powers or the technical know-how, they are likely to waste it. They may not have the ability to use the finance appropriately. Even if they have the ability to use the finance, they may not be able to market their products. Local laws and regulations could also create unfriendly and difficult environment for the poor to do business. That would suggest that mere finance might not make the poor productive until they have training in some skills, elementary management and marketing abilities and an enabling environment to do business. How does Islamic microfinance solve these problems and how is the Islamic approach distinctive from the conventional microfinance? The cost of finance in conventional microfinance is an important detriment in alleviating poverty. How does Islamic microfinance overcome this problem when its proponents also propose *murābahah*-based or *ijārah*-based finance? These are substantial questions and require deep thinking. However, the papers in the book do not discuss these issues. I hope that the editors and authors would take my criticism in good spirit and endeavor to publish future documents on Islamic microfinance that encounter the real issues in Islamic microfinance. That is how the Islamic microfinance can have some appeal for the wider global community.

The book is an edited document of selected papers. A number of papers contain spelling and editorial mistakes and do not adhere to uniform system of citation. The editors did not take enough pains to make some of the highly technical papers intelligible by adding explanatory notes. The book does not have an index at the end, which is customary in all technical and scholarly works. A book published on such important topic should be of international standard in its presentation and content.

Morality and Justice in Islamic Economics and Finance

Author: Muhammad Umer Chapra

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Reviewed by: Salman Syed Ali*

This is the latest book from renowned author Dr. Umer Chapra addressing the hallmarks of Islamic economics and finance, namely, morality and justice, and their implications for the society. Dr. Chapra intended to write a full-fledged book on the concept of justice in Islam. This has been his long-standing wish and still very much a desired objective. However, due to other obligations and engagements this kind of large-scope project would take more time or may remain unfinished. Realizing this, Dr. Chapra embarked on a project of a manageable scope, to write about morality and justice in Islamic economics and finance, which builds on his previous work.

The book consists of an in-depth introduction on the role of Islamic economics and finance in promotion of economic justice, along with eight of his previously published papers collected together. These are organized under two parts: one focusing on Islamic economics, the other concentrating on Islamic finance. The idea behind collecting these papers together is that “the whole is greater than the sum of its parts” scattered in various journals and books.

The introduction begins with presentation of the vision of Islam to be ‘blessing for mankind’ and states the factors behind Muslims’ failure to realize this vision today. It stresses the crucial importance of justice in society and shows its centrality in the message brought by all the prophets and messengers of Allah. It then goes on to explain the role that a financial system can play in promoting justice, and discusses how Islamic finance can do just that. In the sphere of economics, it can promote sustainable development in conformity with the vision of the society, expand employment and self-employment opportunities, increase supply of need-fulfilling

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goods and services, reduce concentration of wealth, and minimize inflationary pressures.

A listing of the titles of the subsequent eight chapters would be sufficient to give an idea about the breadth and importance of the work. Chapter 1: Is it necessary to have Islamic economics?; Chapter 2: Islamic economics: what it is and how it developed; Chapter 3: Ethics and economics: the Islamic imperative; Chapter 4: Ibn Khaldun's theory of development: does it explain the low performance of the present-day Muslim world? The second set of four chapters focuses on justice through Islamic finance. Chapter 5: The case against interest: is it compelling? Chapter 6: Innovation and authenticity in Islamic finance; Chapter 7: Challenges facing Islamic financial industry; and Chapter 8: The global financial crisis: some suggestions for the reform of the global financial system in the light of Islamic finance.

The message of the book if summarized is as follows: An important objective of Islam is to realize justice in greater human society. Laws and moral values are there to help in this realization. The economic system may be able to promote justice by transforming the individual from 'economic man' to a morally-conscious human being. The financial system may be able to promote justice if, in addition to efficiency and stability, it satisfies at least two more conditions. One is that it should encourage risk sharing between the financier and financed rather than risk shifting, and the other is that a portion of the financial resources should also be available to poorer sections of the population so that wealth may not remain circulating among the rich only.

The book is of interest both to experts and ordinary readers interested in interaction of moral economic and financial systems in shaping of the society.

