

INTEREST BASED MICRO-CREDIT IS A PROBLEM FOR WOMEN ENTREPRENEURS: CONSIDERING *MURABAHA* FINANCING AS AN ALTERNATIVE IN THE LIGHT OF *MAQASID AL-SHARI'AH*

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Abstract: Microfinance banks are established to cater for the needs of the economically active poor majority of whom are women. From its evolution, there have been controversies about its impact and growing concern, about its products and services from the Islamic perspective. The products and services of the microfinance banks are majorly based on *Riba* (interest) and Islam strongly condemns any form of dealings with *Riba*. The charging of interest by microfinance banks has resulted in an overall high cost of borrowing for the women entrepreneurs. The objective of this paper is to investigate, through literature review, whether interest based micro-credit is a problem to the business performance of women entrepreneurs. The exploratory study adopting content analysis, to achieve its aim, found that charging interest on borrowed money is a key obstacle for women entrepreneurs. As such, the paper proposed an alternative to interest based micro-credit (i.e., *murabaha* financing [cost-plus]) in the light of *Maqasid Al-Shari'ah*.

Keywords: Microfinance Banks, Micro-Credit, Women Entrepreneurs, *Riba*, *Murabaha* Financing, *Maqasid Al-Shari'ah*

INTRODUCTION

The origin of formal microfinance bank was traced to the establishment of the Grameen Bank in 1976 by Muhammad Yunus to give micro-credit to the poor and uncreditworthy (Khan & Rahaman, 2007). A key aspect that differentiates microfinance institutions (MFIs) from other financial institutions is that it satisfies the double mission of accomplishing social and economic impact with financial objective (Hadisumarto & Ismail, 2010). The micro-credit, given by microfinance banks, is aimed at promoting financial resilience through achieving other social objectives, empowering women and enhancing capacity of the women to steer their lives (Ledgerwood, 1999; Perkins, 2008). The Grameen Bank from inception has loaned about £3 billion to more than six million of the very poorest in Bangladesh and across the Asian sub-continent (Perkins, 2008). This resulted in rising interest among other countries across the globe and many pioneering enterprises began experimenting with loaning to the underserved people. Furthermore, Saeed (2014) indicated that microfinance has a global impression of alleviating poverty specifically in developing economies, where the awareness of microfinance is more apparent because of high rate of poverty.

Therefore, the year 2005 was proclaimed as the International year of micro-credit by The Economic and Social Council of the United Nations (UN) in a call for the financial and building sector to “fuel” the strong entrepreneurial spirit of the poor people around the world (UN, 2004). However, doubt has been cast on the effectiveness of micro-credit in achieving its initial purpose of enhancing the social and economic status of the beneficiaries. Therefore, although microfinance is a grown up global brand, some of its shine has worn out (Perkins, 2008). Hence, this paper attempts to explore the specific reality of interest based micro-credit as a problem for women entrepreneurs, and proposed *Murabaha* financing as an alternative in the light of *Maqasid Al-Shari’ah*. The paper consists of five sections. Section one provides a brief background of microfinance, while section two discusses microfinance and women entrepreneurs. Section three explores whether interest based micro-credit is a problem for women entrepreneurs while section four provides an alternative to interest based micro-credit (i.e., *Murabaha* financing) considering the *Maqasid Al-Shari’ah* and section five concludes the paper.

MICROFINANCE AND WOMEN ENTREPRENEURS SUKUK

Microfinance according to Oluwasanya (2014) is regarded as an economic development tool to benefit low income micro entrepreneurs through provision of financial services (such as micro-credit, micro-savings and insurance). The micro-credit is given to the poor that are declared unbanked and thus rejected by conventional financial system for example, artisans and small-scale farmers (Hassan, 2015; Kordestani, Farzaneh, & Bagheri, 2012; Iqbal, Iqbal, & Mushtaq, 2015). Importantly, because majority of the economically active poor are women, the clients of microfinance banks in most countries of the world are women (Abraham & Balogun, 2012).

Hence, according to Mordi and Okafor (2010), women entrepreneurs are women who take part in entrepreneurial activities and take risk in order to take advantage of the opportunities identified in their immediate environment to enable them to engage in productive activities. To Javadian and Singh (2012), women entrepreneurs are those women who accommodate challenging activities to meet their personal needs and become independent. Women entrepreneurs are key players in economic growth and development (Azmi, Basir, Muwazir, Hashim, & Mohamed, 2014). However, in many developing countries, their businesses tend to be smaller, have fewer staff, lower revenues, less income from entrepreneurial activity, less growth expectations and consistently remain inactive (Akanji, 2006; Vossenber, 2013). Alshebami and Khandare (2015) therefore added that women entrepreneurs through microfinance undertake new entrepreneurial activities, expand existing enterprises, earn income, increase their assets and have a chance to generate more employment opportunities. Therefore, the following section will explore from the literature if interest based micro-credit rendered by microfinance banks is a problem for women entrepreneurs.

INTEREST BASED MICRO-CREDIT: A PROBLEM FOR WOMEN ENTREPRENEURS

Although microfinance banks have been widely viewed as poverty alleviation tools in developing countries, particularly through their provision of micro-credit, there is an increasing counter-argument that questions their effectiveness in poverty alleviation (Mafukata, Kancheya & Dhlandhara, 2014). For instance, one in every five persons in developing countries still live

below \$1.25 per day and there are millions more who make a little above the \$1.25 daily, in addition to many more who are at risk of slipping back into poverty (UN, 2015).

Furthermore, it is evident that microfinance banks have drifted from their initial mission of providing their clients with low cost financial service (Abrar & Javaid, 2014), reaching the poorest and empowering them (Perkins, 2008). Specifically, this is a further indication that majority of the people that are poor and being marginalized in terms of social and economic opportunities are women. The mission drift in microfinance banks is attributed to the increased struggle to generate higher profit irrespective of the needs of the women (Frank & Schneider-Moretto, 2008). The drift is additionally associated to the natural tendency of microfinance banks to shift toward financial performance in absence of a well-defined plan for staying on mission (Epstein & Yuthas, 2010). Generally, the take up of micro-credit from regulated MFIs such as microfinance banks by women has declined (Perkins, 2008). Additionally, Ugiagbe (2014) indicated that the extent to which the conventional microfinance has impacted on women is still a matter of serious debate.

Women entrepreneurs are particularly concerned about micro-credit because of two reasons: firstly, they are more likely to be affected by unemployment and poverty and secondly, they are more vulnerable to financial exclusion (Branan, 2010). However, In France for example, it appears that women are more penalized than men in their access to micro-credit and the interest rate charged on their loan is higher (Branan, 2010). In Bangladesh, although Grameen Bank is doing its best to help its clients, it charges and receives interest from their borrowers, mainly muslim women (Rahman, Islam, Bhuiyan, Mokarrom, & Khan, 2015). Moreover, 77 percent of the clients expressed that charging interest is a serious problem to their business performance (Rahman et al., 2015). Rahman et al. (2015) further described the effort of Grameen Bank as making money from the poor through *Riba* in the name of poverty alleviation as well as socio economic development which is clearly not good in the reality of Islam.

In addition, Fernando (2006) testified that interest rate charged on micro-credit is high. Similarly, Bateman and Chang (2012) stated that microfinance banks charge high interest with short maturities which justify the reason why only simple and unsophisticated microenterprises can service such microloans. For example, in Mexico, a microfinance institution secretly charged its clients especially women 195 percent interest rates on micro-credit (Roodman, 2011). Likewise, in Nigeria, according to Anyanwu (2004), the interest rates charged by microfinance banks were far higher (between 32-48 percent) than the rates charged in conventional commercial banks (between 19.5-21.6 percent). As such, many clients (i.e., women entrepreneurs) stopped patronizing the banks because of the high interest rate charged on loans for productive activities (Okojie, Monye-Emina, Eghafona, & Ehiakhamen, 2009). Furthermore, this is an indication of inequality and severe level of exploitation of the poor, majority of whom are women (Jamie & Bechtel, 2010; Vossenbergh, 2013). Additionally, in their study of why some poor women in Bangladesh do not opt for micro-credit, Khatun, Islam, and Majumder (2014) identified one of the most important reason why women dropped out of the micro-credit programme is the high interest rate charged on micro-credit.

In Jordan, among a focus group of 15 women who borrowed money to start a business, high interest rates forced more than half to use savings for payments and spend the initial loan on immediate needs, such as utilities and healthcare, rather than on what it was intended for (Ward, 2014). In a recent study, Rathirane and Semasinghe (2016) found that, in Northern Sri

Lanka, micro-credit does not impact much on the women entrepreneurs as a result of the high interest rates charged on borrowed money.

The literature is full of several problems that women entrepreneurs face through the use of interest based micro-credit which subsequently affects the performance of their businesses. From Table 1 below, consistent among the problems is that of charging interest on borrowed money. Only one study (i.e., Baker, 1996) did not identify charging interest rate or high interest rate as a problem for women entrepreneurs.

Table 1. Summary of Findings from Critical Review

Source	Study	Problem (s) Identified
Baker (1996)	Experiences of some special credit programs in Bangladesh targeting women.	Weak organizational structure and poor loan supervision, low rates of return on certain activities financed and high cost of operation.
Umoh (2006)	Empirical investigation of access to micro-credit in an emerging economy: evidence from Nigeria.	Income levels, inadequate collateral security, difficult loan process procedures, high interest rate, value of initial capital, and minimum balance requirements.
Madichie and Nkamnebe (2010)	Micro-credit for microenterprises? A study of women “petty” traders in Eastern Nigeria.	High interest rate, fear of risk, fear of default and spouse’s consent or disapproval.
Denanyoh, Adjei, and Owus (2013)	Challenges faced by women entrepreneurs in sourcing micro finance in Ghana: Evidence from Kumasi and Sunyani Markets.	Unaffordable collateral, bank processing procedures too rigid, limited micro financial institutions, shorter repayment periods, unprofessional attitudes of loan officers, high interest rates and fear of loan defaultment.
Khatun et al. (2014)	Why some poor women in Bangladesh do not opt for micro-credit?	High interest rate, poor management of loan money by clients, management of default cases by non-governmental organization or micro finance institution officials, starting time of repayments of instalment, improper utilization of loan money, husband’s unacceptable interference, lack of training to utilize the money and difficulty in getting large amount of loan.
Rahman et al. (2015).	Problems in Micro Financing Of Bangladesh: A Study on Grameen Bank	Excessive formalities and huge signatures, insufficient gestation period for repayment, compulsory signature, insufficient amount of credit, lack of necessary training, social custom and culture, regular presence in meeting, shifting living place, excess tension for defaulter group members, illness of spouse, maintenance of purdah, lack of

		modern technology, lack of proper information and interest based.
Rathiranee and Semasinghe (2016)	The impact of micro finance factors on women entrepreneurs' performance in Northern Sri Lanka.	level of household income, distance to MFI, availability of information technology, interest rate, level of education, vocational training, and collateral availability.
Huque (2017)	Effectiveness of micro-credit on urban poor women in Dhaka City: An empirical study.	Improper or high interest rate
Omotayo, Sajuyigbe, and Oluwayemi (2017)	Role of microfinance on the performance of women entrepreneurs in South Western Nigeria.	High interest rate, strict conditions attached to loans, MFIs not close to the people, more women are not aware about MFIs, lack of priority to rural women, not assisting women entrepreneurs in preparing business plans, and short payback period.

Therefore, from the above review, it is discovered that a key problem for women entrepreneurs is the charging of interest on micro-credit by MFIs. Hence, the conventional microfinance model which is based on *Riba* is really a problem for women entrepreneurs. In addition, the model causes more harm than good (Abu-Joudeh, 2012) and it is most likely to lock people (i.e. women entrepreneurs) in a poverty trap (Bateman & Chang, 2012). This has led Bateman and Chang (2012) to conclude that the outcome of the microfinance model is catastrophic. However, interest rate ceiling has been suggested as a way out, but according to Fernando (2006) interest rate ceilings are not an appropriate intervention or quick short cuts. Fernando (2006) proposed improved market competition, innovation, and efficiency. Moreover, charging interest which entails an addition, however slight, over and above the principal of a loan or debt is seriously condemned in Islam (Ayub, 2007). Therefore, Islam does not support interest rate ceiling. As such, this paper proposed *Murabaha* financing as an innovative and efficient alternative to interest based micro-credit.

Murabaha* Financing as an Alternative to Interest Based Micro-Credit in the Light of *Maqasid Al-Shari'ah

With consistent problem of high or inappropriate interest rate and the rising need for consideration of ethical modes of financing, there is the need for MFIs to provide financial products and services that will meet the needs of women entrepreneurs. British Council Nigeria (2012) indicated the obligation of financial institutions to develop products and services that will meet the religious and circumstantial needs of women entrepreneurs. In view of this, Islam has made available different financial products that are suitable in meeting the financial needs of women entrepreneurs such as *Murabaha*, *Mudarabah*, *Musharakah*, and *Ijarah* among others in view of the weakness of the interest based modes of financing (Balogun, Bustamam, & Johari, 2014; Dogarawa, 2009).

This paper chose *Murabaha* financing because over 70 percent of the Islamic finance products offered by Islamic microfinance institutions are *Murabaha* financing (Mohieldin,

2012). For example, in Bangladesh, compared to other Islamic microfinance products, *Murabaha* financing has the largest outreach of 672,000 customers and total portfolio of assets of approximately 413 million USD (El-Zoghbi & Tarazi, 2013). Furthermore, *Murabaha* financing is primarily an Islamic substitute to the commercial conventional interest based loan or micro-credit where a mark-up is an alternative to interest rate (Ahmed, 2010; El-Zoghbi & Tarazi, 2013). Additionally, in the present-day practice, *Murabaha* is a form of financing that is often used to finance asset purchases (Ahmed, Sabirzyanov, & Rosman, 2016) whereby the women entrepreneurs request the financial institution (such as microfinance bank) to buy a specified good or equipment on their behalf, and as soon as the bank buys the good or equipment, it resells to the entrepreneurs at a cost-plus profit. In addition, ownership of the commodity plus the risk inherent exclusively lies with the financier until the clients (i.e., women entrepreneurs) completely pays the financier (El-Zoghbi & Tarazi, 2013). Importantly, the mark-up is completely different from interest and it does not change even if the client repays after the due date (El-Zoghbi & Tarazi, 2013).

Moreover, no other issue has been condemned and denounced so strongly in Qur'an as has interest. According to Siddiqi (2004) there are twelve verses in the Qur'an indicating the prohibition or condemnation of *Riba*. For instance, Allah(SWT) says:

Those who consume interest cannot stand (on the Day of Resurrection) except as one stands who is being beaten by Satan into insanity. That is because they say; trade is (just) like interest, but Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns (to dealing in interest or usury). Those are the companions of the Fire; they will abide eternally there in. Allah destroys interest and gives increase for charities. And Allah does not like every sinning disbeliever.

(Qur'an 2:275-276, translated by Saheeh International).

In addition, Allah (SWT) further says "O you who have believed do not consume interest, doubled and multiplied, but fear Allah that you may be successful." (Qur'an 3:130, translated by Saheeh International). From these verses, Allah (SWT) has prohibited *Riba*. However, He has permitted trade. Therefore, it is based on this permission that *Murabaha* financing is chosen and viewed as an alternative to interest based micro-credit.

Similarly, The Prophet (PBUH) reported by Jabir; cursed the receiver and the payer of interest, and the one who records it (the contract) and the two witnesses to the transaction and said, "They are all alike in guilt" (*Sahih Muslim*, Book 10, Hadith Number 3881). In addition, "Devouring a dirham of interest is worse than committing adultery 36 times, provided one is aware that he is utilizing money earned by way of interest" (Ahmed & Tibrani, Hadith 22600). Moreover, *Murabaha* financing can be further viewed as an alternative to interest based micro-credit in the light of *Maqasid Al-Shari'ah*. *Maqasid Al-Shari'ah* are principally aimed at promoting good and preventing harm. According to Al-Mubarak and Osmani (2010), Imam Ghazali categorized the objectives of the *Shari'ah* into two main categories namely: the *Deeni* (related to *Deen* and entails protection of faith) and the *Dunyawi* (related to the material world and encompasses protection of life, posterity, intellect and wealth). These five objectives of *Shari'ah*, according to Imam Shatibi, are among a broad category of the objectives called *Daruriyyat* (Al-Mubarak & Osmani, 2010). The *Daruriyyat* are those which are undoubtedly

necessary, with no exception, for the benefits of *Deen* and *Dunya*, and the absence of which will lead to chaos (Al-Mubarak & Osmani, 2010).

In addition, Kamali (1988) suggested encouragement of work and trading activities for smooth flow of living and economic development in the broad category of the *Daruriyyat*. Therefore, this implies that an alternative to interest based micro-credit specifically, *Murabaha* financing, is consistent with the *Maqasid Al-Shari'ah*. In other words, giving micro-credit to women entrepreneurs through contract of trade (i.e., *Murabaha* financing) can have a positive impact on women entrepreneurs. Furthermore, with this mode of financing, the *Deeni* as well as the *Dunyawi* categories of the *Maqasid Al-Shari'ah* will be safeguarded. This is further consistent with the verse of the Qur'an where Allah (SWT) says:

Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, "Trade is [just] like interest." But Allah has permitted trade and has forbidden interest. So, whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns to [dealing in interest or usury] - those are the companions of the Fire; they will abide eternally therein. (Qur'an 2:275, translated by Saheeh International).

Likewise, Al-Suyuti mentioned in a Hadith narrated on the authority of Rafi' that the Prophet (PBUH) was asked: "Which are the best forms of income generation?" He (PBUH) replied, "A man's labour and every legitimate sale" (Aziz, 2011). The Prophet (PBUH) further said "Whoever relieves a believer from a difficulty in this world, Allah will relieve him from his difficulty and Allah will facilitate him in this world and world hereafter" (Forty Hadith of Annawawi, Hadith Number 36). As such, looking at the acceptability of *Murabaha* financing in Islam, it relieves difficulty by making it possible for women entrepreneurs to secure the goods, equipment or raw materials needed to start or expand their businesses. In another Hadith, it is further stated that the Prophet (PBUH) bought a camel from Jabir and the payment was made in Madinah after arrival; and when asked regarding the matter, the Prophet answered: "A sale for a deferred payment by installment is good." Therefore, when people avoid dealings with *Riba*, there will be harmony in societies (Shehu, Ahmad, & Al-Aidaros), because exploitation, subjugation, oppression and inequality among mankind will be eliminated (Saripuddin, 2015). Nevertheless, according to El-Zoghbi and Tarazi (2013) *Murabaha* financing is frequently seen as the Islamic product most closely resembling conventional loan, with the mark-up often considered masked interest. However, in the strict sense, *Murabaha* financing is not a substitute of interest in, and it is wrong to presume that *Murabaha* financing could be used exactly in the same fashion as interest is used (Usmani, 2004). Moreover, this mode of financing (*Murabaha*) has its features and set of conditions without which it is not allowed in *Shari'ah* to use it as a mode of financing (Usmani, 2004). Additionally, managing the transfer of the assets results in operational costs that are often higher than disbursement of cash in conventional microfinance, costs that are likely passed on to the consumer (El-Zoghbi & Tarazi, 2013). Therefore, for *Murabaha* financing to be consistent with the *Maqasid Al-Shari'ah*, the consumers of the product whom are basically the clients need to be considered in order to have a win-win situation. In addition, disregarding the differences between interest based credit and *Murabaha* financing may lead to confusion, exploitation and falling into the

trap of dealings with *Riba*. Therefore, Table 2 below presents the differences between interest-based credit and *Murabaha* financing.

Table 2. Differences between Interest Based Micro-Credit and Murabaha Financing

Aspect	Interest Based Credit	<i>Murabaha</i> Financing
Subject matter	Amount of money	Commodity
Parties	Lender and borrower	Buyer and seller
Rollover	Typically applicable	Impermissible
Collateral	Put up before the loan is processed	May be posted but after the commodity is purchased
Cost transparency	Not a condition	Stipulated/ a condition
Compensation	Interest	Profit
Ownership	The lender remains the owner of funds, while the borrower becomes liable for the amount of loan in addition to interest (repayment plus interest)	The buyer becomes the owner of the commodity, and at the same time becomes liable for its full price (cost plus profit)

Source: *Financial Encyclopedia* (2014)

Conclusion

From the findings of the study, interest based micro-credit is a key issue affecting women entrepreneurs. Furthermore, from the light of *Maqasid Al-Shari'ah*, it is proved that *Murabaha* financing can make the women entrepreneurs achieve both the *Deeni* objective and the *Dunyawi* objectives of the *Maqasid Al-Shari'ah*. Therefore, it is recommended that women entrepreneurs should seek for and utilize *Murabaha* mode of financing thus, striking a balance between their life here and in the hereafter. In addition, the microfinance institutions should appreciate the differences between interest based micro-credit and *murabaha* financing in order to avoid exploitation or falling into the traps of *Riba*.

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