

Partnerships for Success

A Case of Musharaka for Small and Micro
enterprise Development

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"I have always held the religion of Mohammed (P.B.U.H) in high estimation because of its wonderful vitality. It is the only religion which appears to me to possess that assimilating capacity to the changing phases of existence which can make it appeal to every age. I have studied him, the wonderful man, and in my opinion far from being an antichrist, he must be called the Savior of Humanity. I believe that if a man like him were to assume the dictatorship of the modern world, he would succeed in solving its problems in a way that would bring it much needed peace and happiness. I have prophesized about the faith of Mohammed (peace be upon him) that it would be acceptable to the Europe of tomorrow as it is beginning to be acceptable to the Europe of today".²

George Bernard Shaw

Rationale and Background

Approximately 4 billion people, or roughly two thirds of the world's population, live at the base of the pyramid. These four billion souls strive for their existence when household resources prove insufficient leaving unforgettable "poverty marks" on the faces of all specially women and children. According to world hunger fact sheet there were 925 million hungry people around the globe in year 2010. Asia and the pacific

¹ Author is development professional and currently associated with Human development foundation as Program Manager Economic Development.

² Sir George Bernard Shaw in 'The Genuine Islam,' Vol. 1, No. 8, 1936

region is home to largest number of hungry people with 578 million hungry souls followed by sub Saharan Africa with 239 million people.³

This is a very gloomy picture of the world face painted with poverty, hunger, and lack of opportunities to almost two thirds of its dwellers. This is all happening while we live in an era of immense wealth creation, technological innovation, and political emancipation. Lack of access to basic resources and opportunities condemns millions of people to abject poverty. It undermines economic growth and environmental sustainability. And it underpins conflict and instability. It also represents billions of dollars' worth of untapped business opportunities – for micro-enterprises, small businesses, national companies, and multinational corporations alike – to help deliver solutions that spread the benefits of development more widely.

Such a scenario requires very special and innovative approach to get out of such undesired circumstances. World leaders are indeed taking innovative steps in the form of Microfinance, Social entrepreneurs and Inclusive Business Models to combat such a scenario. Poverty can be made history by providing poor people with economic empowerment and opportunity – in the form of access to jobs, training, credit, technology, markets, and business opportunities – is a crucial foundation for building prosperity and driving economic growth and development.

As noted above a major proportion of poor people live in Asia Pacific, Sub Saharan Africa and Arab world⁴. In these areas a good number of dwellers are Muslims living under extreme poverty and vulnerable conditions. Lack of access to financial resources is one of the major causes contributing to poverty and this still remains low among

³http://www.worldhunger.org/articles/Learn/world%20hunger%20facts%202002.htm#Number_of_hungry_people_in_the_world

⁴<http://www.poverty.com>

Muslim communities due to some religious barriers like prohibition of interest. Overcoming poverty in Muslim communities will push us closer to our goal of eradicating extreme poverty and hunger.

This is very challenging “Call to Action” and invites us to work for more innovative solutions for these “special poor” within the indigenous mechanisms provided by Islam. Islam provides Instruments for employment creation, enhancing distributive Justice, Productive use of assets, Asset building and wealth creation. All of these measures are important to poverty alleviation.

Engaging poor people through business partnerships is an innovative approach being advocated these days in the form of social entrepreneurship and inclusive business models. This approach is particularly helpful as poverty alleviation strategy and aims at Small and Micro-enterprise development.

Islam also offers many kinds of business partnership models to cater the needs of different segments of society. Although there is a list of possible partnership solutions but in this we will look for specific partnership contract i.e. “Musharaka”.

What is Musharaka?

Musharakah' is an Arabic word which literally means sharing. The origin of Musharakah is Shirkah which means engagement of two or more parties having a common interest to form a partnership. It is a relationship between two or more persons to engage a business venture through a mutual contract and distribute the profits (or losses) of the business run by all of them or by one of them on behalf of the others.⁵

⁵<http://en.wikipedia.org/wiki/Al-Musharaka>

Profits generated by that particular venture are shared in accordance with the terms of the Musharakah agreement, while losses are shared in proportion to each partner's share of capital. As the meanings of terms suggests, following is being shared by partners.

1. Capital
2. Risk
3. Profit and Loss

Shariah Legitimacy

There are four main sources of Shariah Law

1. The Holy Quran
2. The Holy Sunnah of Prophet Muhammad P.B.U.H
3. The Consensus by Scholars

The Holy Quran

The following Qur'anic verses generally indicate the validity of Musharakah.

i. "...but if more than two, they share in a third..." (Al-Nisa':12)

The verse specifically underlines the rule of Islamic inheritance. However, in general context, Muslim jurists have regarded the text as containing general permissibility of any form of partnership.

ii. "Verily many are the partners (in business) who wrong each other except those who believe and work deeds of righteousness and how few of them...." (Al-Sad: 24

Holy Sunnah

Sunnah of Holy prophet P.B.U.H is the second most important source of Shariah legislation. Following Hadith highlights the importance of Trust between partners.

1. Abu Hurayrah (R.A), trusted companion of prophet P.B.U.H narrated: The Prophet SAW said: Allah says: I am the third [partner] of the two partners as long as they do not betray each other. When one of them betrays the other, I depart from them". (Sunan Abu Daud)

2. Abu al-Minhal (R.A) narrated that Zayd Ibn Arqam and al-Barra' Ibn 'Azib were business partners, and they bought silver in cash and credit. Their practices were brought to the Prophet SAW, and the Prophet SAW pronounced that what was bought on cash then they could benefit from it and what was bought on credit then they should reject it."

(Musnad Ahmad)

Consensus of Muslim Scholars

Imam Ibn al-Munzir states in his book al-Ijma': "And they (Muslim jurists) agree on the validity of partnership where each of the two partners contributes capital in dinar or dirham, and co-mingles the two capitals to form a single property which is indistinguishable, and they would sell and buy what they see as (beneficial) for the business, and the surplus will be distributed between them whilst the deficit will be borne together by them, and when they really carry out [as prescribed], the partnership is valid."⁶

⁶ http://www.mifc.com/index.php?ch=menu_know_principals_musharakah&pg=menu_know_principals_mush&ac=549

Islam promotes active participation in economic activity which is very essential for economic growth of the overall economy. Sometimes insufficient resources bar individuals from actively participating in economic activities. Musharakah provides an opportunity to the individuals to combine their properties in a manner that allows them to produce more wealth than they could each produce individually.

Setting up a Musharaka Contract

The prohibition of interest and uncertainty is driving force behind search for innovative Shariah compliant financial avenues. Here it is only the profit sharing ratio, not the rate of return itself that is predetermined.

Muslim entrepreneurs must avoid dealing with Bank interest As they can still meet their financing needs without compromising their religious beliefs. They can enter into partnerships with their fellow Muslim or organizations offering those Shariah compliant products. A Joint venture between an entrepreneur and an Islamic financial institution is essentially our subject for this current write up. Here we can analyze essentials for a Musharaka Contract like Basic rules governing Musharaka as a contract, Nature of capital, Distribution of Profits and Losses, Management of Musharakah and finally its termination or liquidation.

Rules for a Contract

Musharaka is governed by a contract signed by the two parties. The partnership contract is wide in coverage, accurate and flexible. It extends to include financing as well as the management of the project. The contract shows the financial shares and management obligations, distribution of expected profit or loss and other conditions, which govern the partnership relations. These conditions include the conduct of the partnership operations through a joint account opened in the name of the partnership,

in which withdrawals and deposit of sales proceeds are made according to the contractual plan. Moreover, joint storage of raw materials subject to partnership is also specified in the contract, and an insurance cost added to the total cost. In the case of financial loss, the damages incurred shall be borne by the two parties in the same way, unless it is otherwise proved to be due to the neglect, abuse or violation of terms agreed upon by the party undertaking the management and operation of the venture, in which case such party shall bear the cost of all damages.

In any Musharaka contract the following rules are applied:

Capital

1. The capital is shared by all partners and is generally paid in cash i.e. readily available. Contributions in kind are acceptable but not preferred due to the reason that commodity prices may rise or fall over time. This change in price may put one partner at an advantage or disadvantage. For example if partner A contribute Rs. 10,000 to the capital and Partner B contributed gold worth of Rs. 10,000. At the time of starting Musharakah they have contributed in equally but if over time price of Gold increases this may put Partner B at a comparative advantage or partner A at a comparative disadvantage. It is recommended that contracting parties should contribute in same form of assets most preferably in monetary form to avoid any conflict. Contributions in kind are allowed but subject to certain more restrictions.
2. The total amount of capital to be contributed by each partner shall be determined up front. The agreed capital may be contributed in one lump sum or on staggered basis. If any of the partners fail to follow the agreed schedule, this tantamount to a breach of promise according to specified terms and conditions of the contract. In such a situation partners are at liberty to terminate the agreement

or may agree to revise it based on actual capital contribution. Capital once contributed will cease to remain individual property and will come under joint ownership.

3. Any partner acting on his own or as agent who has caused the loss of capital due to misconduct or negligence shall be liable to refund the loss of capital to the other partners.
4. Each partner enjoys a legal capacity to act for him and on behalf of other partner(s) in dealings with partnership matters.
5. Profit allocation must be stated in percentages and according to partners' shares. If no such proportion has been determined, the contract is not valid in Shariah. The ratio of profit for each partner must be determined in proportion to the actual profit accrued to the business, and not in proportion to the capital invested by him. It is not allowed to fix a lump sum amount for any one of the partners, or any rate of profit tied up with his investment. There exists a difference of opinion among Muslim Jurists whether profit ratio can be more than the ratio in investment. According to some Jurists this should be according to investment ratio while others say that contracting parties may decide otherwise with their free consent. Only active partners are allowed to take more percentage in profit while this provision does not exist for passive/sleeping partners.
6. Muslim jurists hold a unanimous view on the point that each partner shall suffer the loss exactly according to the ratio of his investment. Loss can neither be more than the ratio in investment nor can it be less than that.
7. A Musharaka contract is non-binding — each partner has a right to withdraw under certain conditions if it causes no loss or damage to other parties and after proper notice to the other parties.

Management of Musharakah

The normal principle of Musharakah is that every partner has a right to take part in its management and to work for it. However, the partners may agree upon a condition that the management shall be carried out by one of them, and no other partner shall work for the Musharakah. But in this case the sleeping partner shall be entitled to the profit only to the extent of his investment, and the ratio of profit allocated to him should not exceed the ratio of his investment, as discussed earlier.

However, if all the partners agree to work for the joint venture, each one of them shall be treated as the agent of the other in all the matters of the business and any work done by one of them in the normal course of business shall be deemed to be authorized by all the partners.

Termination of Musharakah

Musharakah is deemed to be terminated in any one of the following events:

1. Every partner has a right to terminate the Musharakah at any time after giving his partner a notice to this effect, whereby the Musharakah will come to an end.

In this case, if the assets of the Musharakah are in cash form, all of them will be distributed pro rata between the partners. But if the assets are not liquidated, the partners may agree either on the liquidation of the assets, or on their distribution or partition between the partners as they are. If there is a dispute between the partners in this matter i.e. one partner seeks liquidation while the other wants partition or distribution of the non-liquid assets themselves, the latter shall be preferred, because after the termination of Musharakah, all the assets are in the joint ownership of the partners, and a co-owner has a right to seek partition or separation, and no one can compel him on liquidation. However, if the assets are such that they cannot be

separated or partitioned, such as machinery, then they shall be sold and the sale-proceeds shall be distributed

2. In case of death of any partner Musharakah contract with him stands terminated.
3. If any one of the partners becomes insane or otherwise becomes incapable of effecting commercial transactions, the Musharakah stands terminated.

Application of Musharaka to Microfinance

Musharaka can be used to finance different business needs. It can be adopted to finance running business needs, purchase fixed assets, livestock farming, Agriculture and any other business areas permissible under Islam. Musharakah can take different three different forms depending upon tenure.

1. Permanent Musharakah

Permanent Musharaka - In this form of Musharaka an Islamic Financial Institution participates in the equity of a project and receives a share of profit on a pro rata basis. The period of contract is not specified. So it can continue so long as the parties concerned wish it to continue. This technique is suitable for financing projects on a longer term where funds are committed over a long period and gestation period of the project may also be protracted.

2. Temporary Musharakah

This form of financing is designed to finance the working capital under which the Islamic Financial Institution enters as a partner for a specified period and receives its share of dividends and its principal equity contribution at the end of the contract. However, a temporary Musharaka contract may be renewed pursuant to a mutual agreement of the two parties.

3. Diminishing Musharakah

Diminishing Musharaka - Diminishing Musharaka allows equity participation and sharing of profit on a pro rata basis but also provides a method through which the equity of the bank keeps on reducing its equity in the project and ultimately transfers the ownership of the asset on of the participants. The contract provides for a payment over and above the bank share in the profit for the equity of the project held by the bank. That is the bank gets a dividend on its equity. At the same time the entrepreneur purchases some of its equity. Thus, the equity held by the bank is progressively reduced. After a certain time the equity held by the bank shall come to zero and it shall cease to be a partner. Musharaka form of financing is being increasingly used by the Islamic banks to finance domestic trade, imports and to issue letters of credit.

Banks and financial Institutions usually will not be interested in permanent Musharakah so their preferred transactions are Temporary Musharakah and Diminishing Musharakah.

Dynamics of Musharaka Model for Micro enterprises

Musharakah can be successfully applied to finance Microenterprises. We can take a simple example of a grocery store who wants to buy a deep freezer to set up a cold drinks stall at his shop but due to insufficiency of funds he is unable to do so. This insufficiency of funds is depriving him from a potential increase in income. He learns about an Islamic Microfinance program and decides to approach the program with his request.

Assumptions

1. Since Muslims participating in Islamic Microfinance programs are devote Muslims and they do not indulge in cheating, deceit fraud and other malicious

activities. They refrain away from riba as well all other acts which can spoil their Halal earnings. They always keep in mind the sayings of Holy Prophet (P.B.U.H) that

“Whoever bears arms against us is not one of us, and whoever cheats us is not one of us.” (Saheeh Muslim)

2. It is assumed that business activity being financed by Musharaka gives a fixed profit per month. This is not an oversimplified assumption we may certain business which give fixed profit over a certain period of time e.g. an ice cream vendor who sells branded ice creams will get almost fixed profits due to the price tags on the products. Being a famous brand everybody knows the price. In this case profits are relatively easy to calculate.
3. Loan officers of Islamic Microfinance programs are competent and trained enough to carefully select the product type and successfully execute it.

We may consider the financing needs of a Muslim entrepreneur who runs a small grocery store in town and has big dreams ahead for a reasonable living. He wants to add a cold drinks spot to his existing outlet but financial resources are a major constraint to his dreams. He wants to improve his livelihood but not at the cost of his religious beliefs which categorically denies any involvement in usurious transactions. He learns about an Islamic Microfinance program and decides to approach it with his financing request. Upon receipt of application a loan officer will check it against qualifying criterion and if successful will precede further by interviewing prospective client about his/her business activities. We suppose that prospective “Partner” is a grocery store owner and he wants to add a cold dink corner to his existing business where he will be selling cold drinks of a famous brand like “Coca Cola or Pepsi”. To set up this stall he needs a deep freezer or chiller as without it he will not be able to sell.

Taking this business initiative he will be able to improve economically. He thinks that partnership with Microfinance program will benefit as without it he is unable to his business. Since being the famous brand sale and purchase prices are known and profits can be calculated. Moreover, Islamic Microfinance program will use its local knowledge as well to judge business trends which will help in correct decision making. It is assumed that prices and profits margins do not change over the span of Musharaka so that assumption of fixed profit remains true. Upon getting all the necessary details and successful completion of required verifications Islamic Microfinance program approves his application and enters into Musharaka agreement with him on following terms and conditions.

- i. Contribution of Islamic Microfinance program will be Rs, 10,000 and the partner will make a matching contribution to purchase the required asset.
- ii. Profit Sharing ratio is 20:80. 20% of the profits will go to Microfinance program.
- iii. Partner will be responsible for management and record keeping e.g. purchase receipts and detail of electricity expenses etc.
- iv. Duration of the partnership is one year
- v. At the end of partnership borrower or partner will purchase the share capital of the Microfinance program on its face value i.e. Rs.10,000/
- vi. Partner will be responsible for safe keeping and proper use of the asset. In case of loss to asset due to his proven negligence, Loss will entirely be borne by him.
- vii. In case of normal capital impairment liability of partners will be subject to percentage in share capital.
- viii. Expected profit (Net) from this activity is 10% per month.

It is assumed that after approval of partnership request, Microfinance program is quick to purchase the asset and hand it over to partner for immediate start of business. It is further assumed that business operates smoothly and generates expected profits. In this

case business outcome for both partners will look like below table. This table also serves as a sample borrower ledger for the partner.

Month	%age of Capital Ownership		Total Profit	Profit Distribution		Total Payment to MFP
	MFP	Partner		10% (20000)	20% MFP	
1	50%	50%	2000	400	1600	400
2	50%	50%	2000	400	1600	400
3	50%	50%	2000	400	1600	400
4	50%	50%	2000	400	1600	400
5	50%	50%	2000	400	1600	400
6	50%	50%	2000	400	1600	400
7	50%	50%	2000	400	1600	400
8	50%	50%	2000	400	1600	400
9	50%	50%	2000	400	1600	400
10	50%	50%	2000	400	1600	400
11	50%	50%	2000	400	1600	400
12	50%	50%	2000	400	1600	400
					19200	4800

After completion of one year partnership contract will stand abolished. For successful termination of Musharakah partner will buy the capital share of Microfinance program on face value. We can notice that profit income for Microfinance program is higher in this case compared with lending on interest for the same amount. As discussed earlier under such an arrangement Microfinance program shares risk of loss and its principal amount remained at risk for whole one year. This entitled the program for a higher return on its investment corresponding to the famous principle of "Al- Kharaj bi al Dhaman" which can be translated to the famous economics principle of "higher the risk, higher the return".

Alternatively partners may adopt another form of partnership i.e. Diminishing Musharakah.

Diminishing Musharaka

According to this concept, Islamic Microfinance Program and his client participate in a joint venture. It is generally agreed that share of the Islamic Microfinance Program will be purchased by its partner (client) over the contract period. This gradual transfer of ownership will reduce the share of IsMFI to “zero” at the expiry of the contract and partner (client) will become sole owner. The Diminishing Musharakah based on the above concept has taken different shapes in different transactions.

If we continue with our above example keeping all things unchanged except the buy-out condition. The only change in buy out condition that partner (Borrower) will buy capital share of Islamic Microfinance program in equal shares. For this arrangement capital share of Islamic Microfinance program is divided in 12 equal shares i.e. Rs.833.33 per unit. Partner will buy a unit of capital share worth Rs.833.33 every month. This will increase the capital ownership of partner (borrower) every month and will decrease the same for Islamic Microfinance program. Profit share will also keep increasing for the partner (Borrower) and decreasing for Islamic Microfinance program until a complete transfer of ownership. A sample borrower ledger for such an arrangement will look like table below.

Month	%age of Capital Ownership		Total Profit	Profit Distribution		Total Payment to IsMFP
	MFP	Partner		20%MFP	80%Partner	
1	50.00%	50.00%	2000	400.00	1600.00	1233.33
2	45.84%	54.16%	2000	366.60	1633.40	1199.93
3	41.67%	58.33%	2000	333.20	1666.80	1166.53
4	37.51%	62.49%	2000	300.00	1700.00	1133.33

5	33.34%	66.66%	2000	266.60	1733.40	1099.93
6	29.17%	70.83%	2000	233.40	1766.60	1066.73
7	25.00%	75.00%	2000	200.00	1800.00	1033.33
8	20.83%	79.17%	2000	166.60	1833.40	999.93
9	16.66%	83.34%	2000	133.20	1866.80	966.53
10	12.49%	87.51%	2000	100.00	1900.00	933.33
11	8.32%	91.68%	2000	66.56	1933.44	899.89
12	4.15%	95.85%	2000	33.20	1966.80	866.53
13	0.00%	100.00%	2000	0.00	2000.00	833.33
				2599.36	23400.64	13432.65

The above table shows the financial dynamics of a Musharakah model. This arrangement will give micro entrepreneur peace of Mind in the sense that in case of failure he will be under no pressure to return the amount to Islamic Microfinance program. This is contrary to conventional microfinance program where entrepreneur has to absorb loss arising from business failure and to return borrowed capital as well. This arrangement will also give micro entrepreneur peace of mind in another perspective i.e. he is not waging war against Allah and his prophet (P.B.U.H) as mentioned in Quran.

However Islamic Microfinance contracts are not without risk. Here we can summarize some of the risks and mitigation strategies in case of Musharakah.

“Risk arises when there is a possibility of more than one outcome and the ultimate outcome is unknown. Though all business face uncertainty, financial institutions face some special kind of risks given their nature of activities. The objective of financial institutions is to maximize profit and shareholder value-added by providing different financial services mainly by managing risks (Khan and Ahmed, 2001)”.

<i>Risk Factor</i>	<i>Mitigation Strategy</i>
<p><u>Moral hazard and adverse selection</u></p> <p>Islamic banks all over the world prefer to reduce their portfolio risk primarily by adopting less</p>	

risky products like Murabaha. This is due to asymmetric information between Islamic Microfinance program and Micro-entrepreneurs. Such situation arises because everybody does not have same level of information. Some business involves exclusive knowledge which cannot be disclosed to any other person or entity like Islamic Microfinance program. This leads to decisions based on incomplete information. Since Musharakah contracts are primarily equity-based, it is often claimed by critics that under asymmetric information, it will be subject to higher degree of adverse selection and moral hazard compare to conventional debt contracts, which is one of the reasons for their lack of popularity in Islamic Financial world.

- ✓ Strong Initial Screening
- ✓ Due Diligence
- ✓ Valuation
- ✓ Approval and Structuring
- ✓ Strong Monitoring

Credit Risk:

Credit risk is generally defined as the potential that counterparty fails to meet its obligations in accordance with agreed terms.

- ✓ Proper risk assessment procedures.
- ✓ Proper due diligence in appraising partnership proposals.
- ✓ Strict Compliance to applicable policies and Shariah compliance specially.
- ✓ Proper credit Management and administrative system.
- ✓ Insurance of assets.

Market Risk

- ✓ Design appropriate

<p>Market risk can be defined as the risks that influence the value of a large number of assets or the systematic and unsystematic risks originating in instruments and assets traded in well-defined markets that cause their price volatility⁴. Specifically, for Islamic financial institution IFSB (2005) defines market risk as the risk that arises from fluctuations in values in tradable, marketable or leasable assets⁵ and in off-balance sheet individual portfolios.</p>	<p>framework for market risk management.</p> <ul style="list-style-type: none"> ✓ Appropriate frameworks for pricing, valuation and income recognition. ✓ A strong MIS for controlling, monitoring and reporting market risk exposure and performance to appropriate levels of senior management.
<p><u>Liquidity Risk:</u></p> <p>This risk arises due to insufficient liquidity that reduces bank's ability to meet its liabilities when it falls due. Specifically, IFSB defines it as potential loss to Islamic financial institution arising from their inability either to meet their obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses.</p>	<ul style="list-style-type: none"> ✓ Proper framework for liquidity measurement and management. ✓ Construct instrument maturity ladders for effective liquidity management. ✓ Periodic cash flow analysis. ✓ Liquidity contingency plan
<p><u>Operational Risk</u></p> <p>Operational Risks arises from failures of Islamic banks in internal controls involving processes, people, and systems and from external events. In addition to these, Islamic banks are also exposed to risk relating to Shariah compliance and fiduciary responsibilities.</p>	<ul style="list-style-type: none"> ✓ Prudent control environment. ✓ Periodic review of operating procedures. ✓ Ensure Shariah compliance in procedures and documentation with periodic review.

Islamic Microfinance and Women Empowerment

There is a misconception that Islamic finance is somehow disadvantageous or inaccessible to women. This is a gross misrepresentation of facts. As a matter of truth Islam recognizes women's independent property rights, encouraged them to save, invest, and improve their condition. Islamic microfinance provides women an opportunity to participate in business activities and improve their economic conditions. We can quote here the example of Khadija bint Khuwailid (R.A) who is mother of all Muslims and is first known women entrepreneur in the history.

She was a known business lady of pre-Islam era and was known for her business dealings. Khadija (R.A) did not travel with her trade caravans rather she relied on others to trade on her behalf, which she compensated with commissions. In 595, Khadija (R.A) needed an agent for a transaction in Syria and hired prophet Muhammad (P.B.U.H), who was then 25 years old. The profit that Muhammad (P.B.U.H) returned to Khadija (R.A) was the double of what she had anticipated. The trip's measure of success encouraged Khadija (R.A) to employ Muhammad again on a winter trip to Yemen. Prophet Muhammad's (P.B.U.H) second trip was equally profitable, and earned him profit more than his 1st trip.⁷

From above we can safely say that Islam does not discourage women from taking business initiatives. From here we can also say that entering into business partnerships is more profitable for all as prophet Muhammad (P.B.U.H) was himself involved in business partnerships.

Conclusion

Two segments of financial industry are growing very rapidly over past four decades i.e. Islamic Finance and Microfinance. Microfinance is a flexible tool capable of being tailored to satisfy the needs and conditions of various environments, including the Islamic financial sector which forbids riba, or the payment and receipt of interest.

⁷ http://en.wikipedia.org/wiki/Khadijah_bint_Khuwaylid

Microfinance and Islamic finance can reinforce each other as they share the same goals. Both the systems strive for poverty alleviation, engage people in financial services, to prevent people from exploitation and promote social and economic fairness. Prohibition of riba, uncertainty, permissible use of funds is the characteristics due to which Islamic finance is recognized as a special category and has a different target audience i.e. Muslim population. However, Islamic finance has the capability of being acceptable to all rather than being a “Muslim only” brand.

A large Muslim population is still untapped. They do not use financial services based on their religious beliefs. This is a fairly large market and demands setting up specialized institutions to meet their demands in a manner compliant with their beliefs. Without addressing their demands “Making poverty history” will only be a dream.

There are an estimated 1.3 billion Muslims worldwide, of which over 35% are living in poverty. In the North African and Middle Eastern region alone, there are approximately 4.5 million entrepreneurial poor who lack access to financial services. Of this number, only 112,000, or 2.4 %, of the potential demand are being served. There are only \$95 million of outstanding microloans—a fraction of the \$1.4 % demand. Egypt, the nation with the most borrowers, barely reaches 5 percent of its potential customer base. Three of the region’s countries—Algeria, Iran, and Syria—lack any sort of microfinance program at all.

“According to Thomson Financial, Islamic finance assets are growing at an annual pace of 20% and hit \$2 trillion in 2010 from \$900 billion in the past. Islamic microfinance is the perfect opportunity for IFIs to promote the humanitarian principles of Islam, and to make a profit while doing so. Microfinance is a proven success. Shariah-compliant products are feasible. And a huge potential market is waiting to be seized.”⁸

Islamic Microfinance has a good potential and needs only patronage from existing Islamic Banks, NGO’s, corporate sector and governments. Regulatory Institutions need to provide their part of support in devising prudential regulations, devising product range and building risk assessment frameworks. Islamic Microfinance Institutions will have to learn from their own experiences and experience of others. By this way we can turn poverty into prosperity with due attention on gender empowerment.

⁸ <http://dev.arabianbusiness.com/islamic-microfinance-needs-patronage-50838.html?tab=Article>

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