MEMORANDUM

From: Malcolm Harper.

To: Chairman, Review Board, fifth international conference on institutional and technological environment for microfinance.

Subject: Abstract of proposed paper on shariah-compliant microfinance credit products for March 2014 conference.

Date: 21st September 2013

There is a large and as yet unsatisfied market for shariah-compliant microfinance; this demand is driven as much by the demands of potential clients as by the religious authorities or regulators.

The majority of the products presently on offer conform to the letter of shariah rather than to its spirit; they are variants of ‘*murabaha*’, or of fixed cost leasing, whereby the financing institution itself buys the assets which the client needs and then re-sells or leases them to the client. The margin of profit can be presented as a trading margin and not as a charge for the use of money, which would be against the principles of shariah, but the effect is similar to that of fixed interest lending.

There are, however, some experiences of the application of micro-*musharaka* or micro-*mudarabah* profit and loss sharing products, which protect the small-scale enterprise from the ‘double loss’ which occurs if the business fails and the debt still has to be repaid. The institution is compensated for such losses through its entitlement to a share of the profits of its more successful clients.

The paper will summarise the present literature on shariah-compliant microfinance, and will describe and analyse field findings from such experiences, in Sudan, Yemen, India, and Pakistan, and the on-going results of current experiments in Somaliland. It will draw conclusions as to the future design and potential of such products, and will identify specific areas where further research is needed.

The results are expected to be of value not only for existing and proposed Islamic microfinance institutions, but they will also advance understanding of the design and future of micro-equity, irrespective of religious considerations.