INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

IJRCM

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories
Indexed & Listed at:
Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A.,
Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)],
Index Copernicus Publishers Panel, Polandwith IC Value of 5.09 &number of libraries all around the world.
Circulated all over the world & Google has verified that scholars of more than 2840 Cities in 164 countries/territories are visiting our journal on regular basis.
Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA
http://ijrcm.org.in/

CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	**MACHINE USAGE BASED ON PRODUCT MIX IN MANUFACTURING CLASSIFICATIONS** *DR. SURESH TULSHIRAM SALUNKE & SHWETA SURESH TULSHIRAM SALUNKE*	1
2.	**A STUDY ON THE CHALLENGES FACED BY TIRUPUR GARMENT EXPORTERS** *DR. S. SARANANAN & S. MOHANRAJ*	5
3.	**HEALTHCARE AND MEDICAL TOURISM: RETROSPECT AND PROSPECT** *R. VEERAPPAN, J. SASIGANTH, FR. ANGELO JOSEPH & A. JOE ROBINSON*	8
4.	**TRADE BETWEEN INDIA AND ASEAN COUNTRIES FOR AGRICULTURAL AND MINERAL PRODUCTS: EXPLORING COMPATIBILITY THROUGH REVEALED COMPARATIVE ADVANTAGE** *DR. B. P. SARATH CHANDRAN*	11
5.	**RELEVANCE OF ISLAMIC BANKING TO INDIAN ECONOMY** *S. NAYAMATH BASHA & DR. BADIUDDIN AHMED*	17
6.	**AXIOMATIZATION OF THE PREFERENCE CORE IN MULTICRITERIA COOPERATIVE GAMES** *A. SUGUMARAN & P. VISHNU PRAKASH*	21
7.	**CORPORATE GOVERNANCE & INFORMATION SECURITY: AN ANALYTICAL STUDY** *DR. BADIUDDIN AHMED, SYED HAMID MOHIUDDIN QUADRI & IRFANUDDIN*	25
8.	**RUPEE FALLING: DOLLAR IS ON HORSE RIDE** *M. RAMU, M. S. K. VARMA & S.SUDHEER*	28
9.	**AN ANALYSIS OF INDIAN AUTOMOBILE INDUSTRY: SLOWDOWN AS AN OPPORTUNITY FOR NEW DEVELOPMENT** *DR. ANKUR KUMAR RASTOGI & NITIN GOPAL GUPTA*	36
10.	**A PROPOSED THEORY OF NEURAL NETWORKS IN KNOWLEDGE MANAGEMENT FOR AN EXPERT SYSTEM** *V. SUMALATHA*	41
11.	**THE INFORMATION MANAGEMENT PRACTICES OF BHIRDAR UNIVERSITY** *DR. MATEBE TAFERE*	45
12.	**VEBLENIAN SOCIO-PSYCHOLOGICAL MODEL: AN ETHNOGRAPHIC STUDY** *DR. K. ABRAHAM & DR. M. RAJASEKHAR*	51
13.	**INNOVATIVE TEACHING AND LEARNING TO ENHANCE CRITICAL THINKING AND REFLECTIVE PRACTICE, FOR QUALITY AND RELEVANCE OF HEALTH EDUCATION** *DR. BIRHANU MOGES ALEMU*	56
14.	**A STATISTICAL ANALYSIS OF PHYSICALLY DISABLED POPULATION: DEVELOPMENT IN REHABILITATION SCHEMES** *DR. CHINNA ASHAPPA*	68
15.	**USE OF E-JOURNALS IN THE DISCIPLINES OF LIFE SCIENCE IN K.U.K: AN ANALYTICAL STUDY** *ANIL KUMAR*	72
16.	**ISLAMIC MICROFINANCE-FINANCING THE POOREST OF THE POOR** *DILAWAR AHMAD BHAT*	79
17.	**USE OF CLOUD COMPUTING IN MANUFACTURING COMPANIES** *SHEETAL MAHENDHER & SUBASHREE*	83
18.	**CLIMATE CHANGE AND VECTOR BORNE DISEASES: THE ROLE OF GIS & REMOTE SENSING** *DIVYA GEORGE & DR. R. RAJKUMAR*	88
19.	**FEASIBILITY STUDY FOR IMPLEMENTATION OF AN ACTIVITY- BASED COSTING SYSTEM (ABCS) IN ALLOY STEEL INDUSTRIES (ASI)** *MAJID NILI AHMADABADI & ALI SOLEIMANI*	96
20.	**AN IMPACT OF SERVICE QUALITY ON LOYAL CUSTOMER AND ITS SATISFACTION: A STUDY OF PRIVATE BANKS IN KANPUR CITY (INDIA)** *RAVINDRA KUMAR KUSHWAHA, GURPREET SINGH, NEERAJ JOSHI & NEHA PUSHPAK*	101
21.	**A STUDY ON EMPLOYEE PERFORMANCE APPRAISAL IN CEMENT INDUSTRY IN TAMILNADU** *DR. M. RAGURAMAN, R. VEERAPPAN, S. ALBERT, M. SUGANYA & S. HEMAVATHY*	107
22.	**DETERMINANTS OF MOBILE BANKING TECHNOLOGY ADOPTION OF COMMERCIAL BANKS IN ETHIOPIA** *ZEMENU AYNADIS, TESFAYE ABATE & ABEBE TILAHUN*	110
23.	**EVALUATION OF LIC'S EFFICIENCY IN GENERATING CAPITAL FUNDS UNDER ULIP'S SCHEMES** *MANJUSHREE S*	117
24.	**EVALUATION OF COST MANAGEMENT TOOLS: A STUDY ON MULTINATIONAL PHARMACEUTICAL COMPANIES OF BANGLADESH** *TAHMINA AHMED*	120
25.	**AN EVALUATION OF NEW ZEALAND'S EXPORT COMPETITIVENESS USING SHIFT-SHARE ANALYSIS** *DR. SATYA GONUGUNTLA*	126
26.	**INCREASING INTERNATIONAL COLLABORATIONS IN SCIENCE AND TECHNOLOGY AROUND THE WORLD, AND ITS PATTERNS IN INDIA WITH SPECIAL REFERENCE TO INDO-GERMAN COLLABORATION** *MUNEEB HUSSAIN GATTOO & MUJEEB HUSSAIN GATTOO*	131
27.	**A STUDY ON THE ETHICAL INVESTMENT DECISION MAKING IN INDIAN RELIGIOUS ORGANISATIONS** *BINCY BABURAJ KALUVILLA*	135
28.	**GREEN MARKETING MIX: A STRATEGY FOR SUSTAINABLE DEVELOPMENT** *L. NANDA GOPAL*	138
29.	**CONSIDERING RELATIONSHIP BETWEEN CASH WITH CAPITAL COST AND FINANCIAL FLEXIBILITY** *AHMAD GHASEMI & DR. ROYA DARABI*	140
30.	**UNDERSTANDING THE GREEKS AND THEIR USE TO MEASURE RISK** *SANJANA JUNEJA*	146
	REQUEST FOR FEEDBACK	150

CHIEF PATRON

PROF. K. K. AGGARWAL

Chairman, Malaviya National Institute of Technology, Jaipur

(An institute of National Importance & fully funded by Ministry of Human Resource Development, Government of India)

Chancellor, K. R. Mangalam University, Gurgaon

Chancellor, Lingaya's University, Faridabad

Founder Vice-Chancellor (1998-2008), Guru Gobind Singh Indraprastha University, Delhi

Ex. Pro Vice-Chancellor, Guru Jambheshwar University, Hisar

FOUNDER PATRON

LATE SH. RAM BHAJAN AGGARWAL

Former State Minister for Home & Tourism, Government of Haryana

Former Vice-President, Dadri Education Society, Charkhi Dadri

Former President, Chinar Syntex Ltd. (Textile Mills), Bhiwani

CO-ORDINATOR

AMITA

Faculty, Government M. S., Mohali

ADVISORS

DR. PRIYA RANJAN TRIVEDI

Chancellor, The Global Open University, Nagaland

PROF. M. S. SENAM RAJU

Director A. C. D., School of Management Studies, I.G.N.O.U., New Delhi

PROF. M. N. SHARMA

Chairman, M.B.A., Haryana College of Technology & Management, Kaithal

PROF. S. L. MAHANDRU

Principal (Retd.), Maharaja Agrasen College, Jagadhri

EDITOR

PROF. R. K. SHARMA

Professor, Bharti Vidyapeeth University Institute of Management & Research, New Delhi

CO-EDITOR

DR. BHAVET

Faculty, Shree Ram Institute of Business & Management, Urjani

EDITORIAL ADVISORY BOARD

DR. RAJESH MODI

Faculty, Yanbu Industrial College, Kingdom of Saudi Arabia

PROF. SANJIV MITTAL

University School of Management Studies, Guru Gobind Singh I. P. University, Delhi

PROF. ANIL K. SAINI

Chairperson (CRC), Guru Gobind Singh I. P. University, Delhi

DR. SAMBHAVNA
Faculty, I.I.T.M., Delhi
DR. MOHENDER KUMAR GUPTA
Associate Professor, P. J. L. N. Government College, Faridabad
DR. SHIVAKUMAR DEENE
Asst. Professor, Dept. of Commerce, School of Business Studies, Central University of Karnataka, Gulbarga

ASSOCIATE EDITORS

PROF. NAWAB ALI KHAN
Department of Commerce, Aligarh Muslim University, Aligarh, U.P.
PROF. ABHAY BANSAL
Head, Department of Information Technology, Amity School of Engineering & Technology, Amity University, Noida
PROF. A. SURYANARAYANA
Department of Business Management, Osmania University, Hyderabad
DR. SAMBHAV GARG
Faculty, Shree Ram Institute of Business & Management, Urjani
PROF. V. SELVAM
SSL, VIT University, Vellore
DR. PARDEEP AHLAWAT
Associate Professor, Institute of Management Studies & Research, Maharshi Dayanand University, Rohtak
DR. S. TABASSUM SULTANA
Associate Professor, Department of Business Management, Matrusri Institute of P.G. Studies, Hyderabad
SURJEET SINGH
Asst. Professor, Department of Computer Science, G. M. N. (P.G.) College, Ambala Cantt.

TECHNICAL ADVISOR

AMITA
Faculty, Government M. S., Mohali

FINANCIAL ADVISORS

DICKIN GOYAL
Advocate & Tax Adviser, Panchkula
NEENA
Investment Consultant, Chambaghat, Solan, Himachal Pradesh

LEGAL ADVISORS

JITENDER S. CHAHAL
Advocate, Punjab & Haryana High Court, Chandigarh U.T.
CHANDER BHUSHAN SHARMA
Advocate & Consultant, District Courts, Yamunanagar at Jagadhri

SUPERINTENDENT

SURENDER KUMAR POONIA

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the areas of Computer Science & Applications; Commerce; Business; Finance; Marketing; Human Resource Management; General Management; Banking; Economics; Tourism Administration & Management; Education; Law; Library & Information Science; Defence & Strategic Studies; Electronic Science; Corporate Governance; Industrial Relations; and emerging paradigms in allied subjects like Accounting; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Rural Economics; Co-operation; Demography: Development Planning; Development Studies; Applied Economics; Development Economics; Business Economics; Monetary Policy; Public Policy Economics; Real Estate; Regional Economics; Political Science; Continuing Education; Labour Welfare; Philosophy; Psychology; Sociology; Tax Accounting; Advertising & Promotion Management; Management Information Systems (MIS); Business Law; Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labour Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; International Relations; Human Rights & Duties; Public Administration; Population Studies; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism & Hospitality; Transportation Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic; Web Design and emerging paradigms in allied subjects.

Anybody can submit the **soft copy** of unpublished novel; original; empirical and high quality **research work/manuscript** ***anytime*** in ***M.S. Word format*** after preparing the same as per our **GUIDELINES FOR SUBMISSION**; at our email address i.e. infoijrcm@gmail.com or online by clicking the link **online submission** as given on our website (***FOR ONLINE SUBMISSION, CLICK HERE***).

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

DATED: _____________

THE EDITOR
IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF.**

(e.g. Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled '____' for possible publication in your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the author (s) have seen and agreed to the submitted version of the manuscript and their inclusion of name (s) as co-author (s).

Also, if my/our manuscript is accepted, I/We agree to comply with the formalities as given on the website of the journal & you are free to publish our contribution in any of your journals.

NAME OF CORRESPONDING AUTHOR:
Designation:
Affiliation with full address, contact numbers & Pin Code:
Residential address with Pin Code:
Mobile Number (s):
Landline Number (s):
E-mail Address:
Alternate E-mail Address:

NOTES:
a) The whole manuscript is required to be in ***ONE MS WORD FILE*** only (pdf. version is liable to be rejected without any consideration), which will start from the covering letter, inside the manuscript.
b) The sender is required to mentionthe following in the **SUBJECT COLUMN** of the mail:
New Manuscript for Review in the area of (Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/ Engineering/Mathematics/other, please specify)
c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any specific message w.r.t. to the manuscript.
d) The total size of the file containing the manuscript is required to be below **500 KB**.
e) Abstract alone will not be considered for review, and the author is required to submit the complete manuscript in the first instance.
f) The journal gives acknowledgement w.r.t. the receipt of every email and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending separate mail to the journal.

2. **MANUSCRIPT TITLE**: The title of the paper should be in a 12 point Calibri Font. It should be bold typed, centered and fully capitalised.

3. **AUTHOR NAME (S) & AFFILIATIONS**: The author (s) **full name**, **designation**, **affiliation** (s), **address**, **mobile/landline numbers**, and **email/alternate email address** should be in italic & 11-point Calibri Font. It must be centered underneath the title.

4. **ABSTRACT**: Abstract should be in fully italicized text, not exceeding 250 words. The abstract must be informative and explain the background, aims, methods, results & conclusion in a single para. Abbreviations must be mentioned in full.

5. **KEYWORDS**: Abstract must be followed by a list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stops at the end.

6. **MANUSCRIPT**: Manuscript must be in ***BRITISH ENGLISH*** prepared on a standard A4 size ***PORTRAIT SETTING PAPER***. It must be prepared on a single space and single column with 1" margin set for top, bottom, left and right. It should be typed in 8 point Calibri Font with page numbers at the bottom and centre of every page. It should be free from grammatical, spelling and punctuation errors and must be thoroughly edited.

7. **HEADINGS**: All the headings should be in a 10 point Calibri Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

8. **SUB-HEADINGS**: All the sub-headings should be in a 8 point Calibri Font. These must be bold-faced, aligned left and fully capitalised.

9. **MAIN TEXT**: The main text should follow the following sequence:

   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

   It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

10. **FIGURES &TABLES**: These should be simple, crystal clear, centered, separately numbered & self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. It should be ensured that the tables/figures are referred to from the main text.

11. **EQUATIONS**:These should be consecutively numbered in parentheses, horizontally centered with equation number placed at the right.

12. **REFERENCES**: The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow **Harvard Style of Referencing**. The author (s) are supposed to follow the references as per the following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parentheses.
- The location of endnotes within the text should be indicated by superscript numbers.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

ISLAMIC MICROFINANCE-FINANCING THE POOREST OF THE POOR

DILAWAR AHMAD BHAT
ASST. PROFESSOR
DEPARTMENT OF MANAGEMENT STUDIES
CENTRAL UNIVERSITY OF KASHMIR
KASHMIR

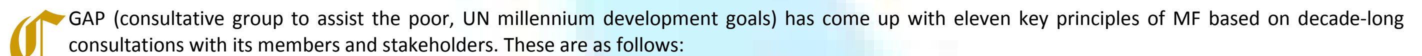
ABSTRACT

Making poor bankable is the shortest definition of microfinance. Microfinance (MF) is a powerful poverty alleviation tool. It implies provision of financial services to poor and low-income people whose low economic standing excludes them from formal financial systems. Access to services such as, credit, venture capital, savings, insurance, remittance is provided on a micro-scale enabling participation of those with severely limited financial means. The provision of financial services to the poor helps to increase household income and economic security, build assets and reduce vulnerability; creates demand for other goods and services (especially nutrition, education, and health care); and stimulates local economies..The main aim of the paper is to assess the potentials of Islamic financing schemes for micro financing purposes. The paper argues that Islamic finance has an important role for furthering socio-economic development of the poor and small (micro) entrepreneurs without charging interest (read: riba'). Furthermore, Islamic financing schemes have moral and ethical attributes that can effectively motivate micro entrepreneurs to thrive. The paper also argues that there is a nexus between Islamic banking and microfinance as many elements of microfinance could be considered consistent with the broader goals of Islamic banking. The paper, first, introduces the concepts of microfinance, and presents a case for Islamic microfinance to become one of the components of Islamic banking. The paper then discusses, the potentials of various Islamic financing schemes that can be advanced and adapted for microfinance purposes including techniques to mitigate the inherent risks.

KEYWORDS

gharrar, ijara, mudaraba, murabaha, musharaka, riba.

INTRODUCTION



CGAP (consultative group to assist the poor, UN millennium development goals) has come up with eleven key principles of MF based on decade-long consultations with its members and stakeholders. These are as follows:

1. Poor people need a variety of financial services, not just loans. In addition to credit, they want savings, insurance, and money transfer services.
2. Microfinance is about building permanent local financial institutions that can attract domestic deposits, recycle them into loans, and provide other financial services
3. Donor funds should complement private capital, not compete with it. Donor subsides should be temporary start-up support designed to get an institution to the point where it can tap private funding sources, such as deposits.
4. Microfinance is a powerful tool to fight poverty. Poor households use financial services to raise income, build their assets, and cushion themselves against external shocks.
5. . The job of government is to enable financial services, not to provide them directly. Governments can almost never do a good job of lending, but they can set a supporting policy environment.
6. Microfinance works best when it measures—and discloses—its performance. Reporting not only helps stakeholders judge costs and benefits, but it also improves performance. MFIs need to produce accurate and comparable reporting on financial performance (e.g., loan repayment and cost recovery) as well as social performance (e.g., number and poverty level of clients being served).
7. Interest rate ceilings hurt poor people by making it harder for them to get credit. Making many small loans costs more than making a few large ones. Interest rate ceilings prevent microfinance institutions from covering their costs, and thereby choke off the supply of credit for poor people
8. Microfinance means building financial systems that serve the poor. Microfinance will reach its full potential only if it is integrated into a country's mainstream financial system.
9. Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people. Unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from governments and donors.
10. Microcredit is not always the answer. Other kinds of support may work better for people who are so destitute that they are without income or means of repayment.
11. The key bottleneck is the shortage of strong institutions and managers. Donors should focus their support on building capacity.

Microfinance and Islamic finance have much in common. Islam emphasizes ethical, moral, social, and religious factors to promote equality and fairness for the good of society as a whole. Principles encouraging risk sharing, individual rights and duties, property rights, and the sanctity of contracts are all part of the Islamic code underlying the financial system. In this light, many elements of microfinance are consistent with the broader goals of Islamic finance. Both advocate entrepreneurship and risk sharing and believe that the poor should take part in such activities. Both focus on developmental and social goals. Both advocate financial inclusion, entrepreneurship and risk-sharing through partnership finance. Both involve participation by the poor. There are however, some points of difference, discomfort and discontentment. Conventional microfinance is not for the poorest of the poor. There is a sizeable substratum within the rural poor whose lives are unlikely to be touched, let alone improved by financial services. They are not "bankable" in their own or their neighbour's eyes, even when the bank is exclusively for poor people. Yet they desperately need some sort of assistance. An Islamic microfinance system, on the other hand, identifies being the poorest of the poor as the primary criterion of eligibility for receiving *zakah*. It is geared towards eliminating abject poverty through its institutions based on *zakah* and *sadaqah*. Most conventional microfinance providers charge rates of interest that are found to be high when benchmarked against mainstream banking rates. Several reasons are usually given in defense. First, returns on investment in micro-enterprise are very high, by the standards of banks and other investors – the reason being the miniscule size of investments compared to the earnings numbers. Hence, entrepreneurs can "afford" to pay high interest rates as cost of funds as long as the same are lower than rates of return. And those interest rates are much less important to micro-enterprises than access, timeliness and flexibility. Second, interest rates on microfinance are pegged relatively higher, since they entail higher administrative charges, monitoring costs and are by definition, riskier than a traditional financing portfolio.

There is indeed a general agreement on the issue that administrative and monitoring costs are higher with micro-financing. While this helps explain the differential in cost of financing of an MF portfolio as compared to a traditional portfolio, the method of financing need not be interest-based. It is commonly believed that rates of returns on micro-projects tend to be very high. However, the same is true only for the "successful" projects passing through "good times" and not true of all projects at all times. Interest related liability can compound and accentuate the financial problems of a project experiencing bad times and hasten its failure. The pace, frequency and intensity of such failure is directly related to the levels of interest rates. In case of Islamic profit-sharing mechanisms on the other hand, there is a clear alignment between profitability of the project and cost of capital. The latter rises and falls in line with the realized profits of the venture. In case of Islamic debt financing too, the negative effects of financial risk arising out of use of fixed-rate financing are limited as compared to interest-based debt. This is because the former does not allow for compounding of the debt in case of possible default. Interest rate – high or low, is rejected by

large sections of the Muslim societies as tantamount to *riba* – something that is prohibited in no uncertain terms by the Islamic Shariah. One of the potential benefits of microfinance in Muslim societies is the empowerment of Muslim women. While the ability of microfinance institutions to deliver financial services to rural women in gender-segregated societies is commendable, working with Muslim women is a sensitive issue that often raises accusations of meddling with social codes. Some Islamic MF institutions seek to overcome this through a shift in their focus from "women empowerment" to "family empowerment". In a few other Islamic MF programs, a culturally appropriate way has been found of empowering women through gender-segregated ownership of the financing entity and involving separate appraisal of loan applications by women who develop their own gender-sensitive products and strategies for the future. From the above, it is clear that the cultural and religious sensitivities of the Islamic world are somewhat unique and these must be given due emphasis in any attempt to build inclusive financial systems and bring the over one-billion Muslims into the fold of formal financial systems.

ISLAMIC FINANCE – INITIAL DIFFICULTIES WITH MICROFINANCE

In view of the above issues concerning Islamic Finance and the structures commonly used in microfinance, there are thus several key issues with regard to combining the two:

• **Riba on loans.** The most obvious and fundamental issue surrounds the issue of microcredit as the primary means of promoting entrepreneurship and reducing poverty. Interest cannot be charged, thus seeming to remove the possibility of deploying anything other than charitable donations; the sustainable social business model does not seem to apply here.

• **Riba on savings.** Again, riba cannot be applied to savings. This is not as fundamental an issue as that faced by microcredit, but aside from the issue of storing savings in a secure place, it does remove one of the key incentives to save in an environment where conventional saving is often not very well rooted.

• **Insurance.** The conventional insurance model takes a premium from the client in the hope of making a profit. In other words, it is speculating that the revenue accumulated will exceed the payouts required. This aspect of speculation is seen as maysir, or gambling, and is haram. Furthermore, the fact that the client is paying a premium, but may receive nothing in return, amounts to gharar, as the outcome is unclear.

Given these significant obstacles, how can practitioners of Islamic Finance arrive at a solution?

Islamic Finance – alternative solutions via existing instruments

A) LEGAL TOOLS

The legal tools required to operate within Islamic Finance are similar to those used in Western law, but are nevertheless critical in terms of their different applications.

Wa'd (promise)

Wa'd is the promise to carry out (or not carry out) certain actions in the future. Opinions are divided within the Islamic world as to whether it is legally binding or simply the sign of noble intentions. However, assuming no force majeure, the general consensus, as represented by the Islamic Fiqh Academy, is that some sort of penalty should be enforceable for failure to fulfil its terms. One potential use within Islamic microfinance would be for those given positions of authority within the local microcredit infrastructure.

Aqd' (contract) An Aqd' contract must consist of two counterparties exchanging goods at an agreed price. The offer made must be matched by the agreement returned, which must be explicit.

Kafala (guarantee) Given that riba cannot be levied, or penalties charged to the benefit of the creditor, kafala, or third party liability, can sometimes be seen as unnecessary. However, in the field of microfinance, the concept of a third party guarantor is one thoroughly embedded in many of the models, and consequently relevant here.

Wakala (agency contract)

This is a concept applied in many instruments used in Islamic Finance, ranging from brokerage to the purchase of property. Individuals or organizations are able to give authority to another party to transact deals on their behalf, as with banks giving authority to loan officers or village elders.

B) SHARIAH-COMPLIANT INSTRUMENTS OF MICROFINANCE

Prohibition of riba, gharar, jahl, darar and other constraining norms in Islamic finance does not constitute an obstacle in building sound microfinance products. On the contrary, the need for Shariah compliance has led to considerable research into product development. While the conventional system provides for simple interest-based deposits, donations and loans, the Islamic financial system comprises an array of instruments for mobilization of funds, financing and for risk management.

I) INSTRUMENTS FOR MOBILIZATION OF FUNDS

Instruments for mobilization of funds may be broadly divided into (1) charity that includes zakah, sadaqah, awqaf; gifts that include hiba and tabarru; (2) deposits that may take the form of wadiah, qard al-hasan and mudarabah and (3) equity that may take the form of classical musharakah or the modern stocks.

1) While sadaqah, hiba and tabarru have parallels in conventional microfinance, such as, donations or contributions, zakah and awqaf have a special place in the Islamic system and are governed by elaborate fiqhi rules. Zakah is one of the five pillars of Islam and is meant to finance the poorest of the poor. These sections of the society are unlikely to have positive-NPV projects in need of financing and hence, are "unbankable". Awqaf creates and preserves long-term assets that generate income flows or indirectly help the process of production and creation of wealth. By targeting its benefits towards the poor, awqaf can play an important role in poverty alleviation. Though there has been significant improvement in management of zakah and awqaf in recent years, their role as vehicles of microfinance and poverty alleviation is grossly underestimated. Their growing popularity evidenced through establishment of many a zakah fund and awqaf fund is an indication of their vast potential in Muslim societies.

2) Deposits in the form of wadiah, qard al-hasan and mudarabah have their parallel in savings, current and time deposits respectively and are a regular source of funds for Islamic microfinance institutions, especially those in South-East Asia. Wadiah deposits attract gifts to compare favorably with returns available on interest-bearing deposits. Qard-based deposits do not provide any return and in some cases, involve a charge. Mudarabah deposits are based on profit-loss sharing with the depositor as rabb-al-mal and the microfinance institution as the mudarib. Available empirical evidence from Indonesia asserts that Islamic microfinance institutions have lagged far behind their conventional counterparts in raising funds through deposits. Clearly there is a need to redesign many of the deposit products by taking into account customer needs and preferences.3.2.1.3. Microfinance institutions also have the option of raising funds through participatory modes, such as, musharakah or modern equity. There is one microfinance program that has successfully demonstrated the practicality of the Islamic participatory approach of risk and profit-sharing: the village-bank-like Sanadiq program in Jabal Al Hoss, Syria. Here, villagers buy shares and become owners of the program. Financing of course is made using the murabahah methodology and dividends are distributed annually to the shareholders if profits are sufficient.

II) INSTRUMENTS OF FINANCING

Instruments of financing may be broadly divided into (1) participatory profitloss- sharing (PLS) modes, such as, mudarabah and musharakah; (2) sale-based modes, such as, murabahah; (3) lease-based modes or ijarah and (4) benevolent loans or qard with service charge.

a) Real-life experience shows that murabahah is preferred over mudarabah primarily because it eliminates the need for written records, often un available at the micro enterprise level or if available, the client may be unwilling to share them. Further, in case of murabahah a well-defined contract exists, with pre-defined amounts; a fixed contract creates a less complicated process and a lower implementation cost to the institution.

b) A microfinance program has to make several trade-offs when selecting an appropriate financing methodology based on Islamic finance principles. The program must account for the administrative costs and risks of a particular methodology not only to the program but also to borrowers. Often the choice could depend on the nature of the client. As practiced in Indonesia, clients may be broadly divided into two categories: (i) clients with existing businesses and

successful operations for at least two years. (ii) new entrepreneurs without prior business experience. The vast majority of clients are those with existing businesses and a good track record; they can be financed through such financial products as murabahah, musharakah and mudarabah, which involve some form of profitsharing. New clients without a track record are considered very risky and represent but a small minority; they can be financed through qard al-hasan, soft loans without any charge or profit-sharing. Consumer loans and loans for speculative investments, which could be ruinous to the borrower, are excluded from the range of permissible purposes of financing.

C) Unlike mainstream Islamic finance that does not quite treat qard al-hasan as a financing mechanism, Islamic microfinance has found this mechanism to be a "pure and effective" way of financing the poor. Many Islamic microfinance programs are modeled solely using qard al-hasan - both as an effective fundraising and financing mechanism. Qard al-hasan has a much stronger religious undertone than other "halal" mechanisms, being directly ordained by the holy Quran.

ISLAMIC FINANCE – SOLUTIONS TO COMMON ISSUES IN MICROFINANCE

If the answer to many of the issues surrounding Islamic microfinance can be found in the various models above, does Islamic Finance provide solutions to some of the issues plaguing microfinance as a whole? Could Islamic Finance extend microfinance in certain respects?

In discussing the issues relating to microfinance, we first mentioned the issue of high interest rates. Of course, such interest rates are not (or should not be) inflicted simply to make a healthy profit margin, but are instead symptomatic of the high costs involved in setting up and operating microcredit in developing, or even developed, nations. The fact that interest is not clearly stated as such, but is instead reflected in the mark-up in a murabaha, or in the required rate of return from a mudaraba, will not eliminate it as a cost to be borne by the consumer. However, although it would require further monitoring, the mudaraba model may at least offer a greater sense of social benefit by involving the institution in the gains and losses of the consumer.

Another area addressed was the role of subsidies within microfinance. As mentioned previously, subsidies still play a significant role within the industry. While this work does not intend to discuss whether it is morally or economically justifiable to subsidize social businesses, de Aghion and Morduch point to a theory supported among many studies of "subsidize start-up costs, not ongoing operations".18 This suggests that subsidies at least have some role to play in microfinance; consequently the substantial role played by zaqat in Islam offers an easy route, both practically and philosophically, for start-up costs at ground level among communities.

Finally, we mentioned the opposing issues of defaulting clients and overzealous enforcement. These are issues which will occur in any model along these lines, but in terms of reducing their impact, one solution may be to involve local institutions, such as mosques or tribal leaders, to ensure both consumers and representatives of the IFI behave in a proper manner. This will be covered in greater detail in subsequent sections.

Ultimately all of the above issues relating to microfinance are symptomatic of the challenges involved in working with BOP consumers, and as such are unlikely to be entirely solved by any model. However, Islamic Finance can perhaps alleviate them in some respects, while providing a solution for those consumers who feel excluded from microfinance due to their beliefs.

ISLAMIC FINANCE – PHILOSOPHICAL SIMILARITIES AND NEW SOCIAL MODELS

The models described in previous sections provide significant evidence that Islamic finance and microfinance can be compatible, at least from a technical standpoint. Standard microcredit arrangements can be mimicked by a murabaha agreement, or possibly even a mudaraba agreement; equally the leasing or purchase of property or other goods can be accomplished via an ijara agreement. Elsewhere in microfinance, we have seen that bank accounts can still be provided under an amanah or wadia contract, while the community-based solution found in a takaful contract is ideal for providing micro insurance.

The idea of responsibility to the community is one that is deeply ingrained in Islam, and thus throughout many Muslim communities. Zaqat may provide an opportunity in terms of aiding very poor communities to develop to the point where they can be helped by microfinance; it may equally provide a means to finance the start-up process for very small microfinance institutions or community groups. Another angle to this concept is the disapproval expressed within Islam of hoarding.

Let those who hoard the wealth that God has given them never think that they will benefit from it. It will bring them nothing but evil. The riches that they have hoarded will be their chains on Judgement Day. Qur'an, 3:180

As a result there is a clear need within the Islamic community for both charitable contributions and investments that include a social aspect, thus fulfilling obligations to the community as a whole. Therefore by looking beyond the technical aspects of Islamic Finance, it may be possible to envisage a social model whereby Islamic microfinance institutions are initially financed, then later underwritten by the richest members of the community, those above the BOP categories

ISLAMIC FINANCE – PROBLEMS COMPARED TO ORTHODOX MICROFINANCE

The most significant issue facing those wishing to combine Islamic Finance and microfinance is that of gender. The role of women in microfinance is seen as critical to the model laid out in the Grameen paradigm: Grameen boast of "8.1 million borrowers, 97 percent of whom are women", while various estimates place the proportion of women among all microfinance borrowers at between seventy and eighty-five percent. The most commonly proposed arguments are:

- Social pressure – the idea that women are more susceptible to the estimation of others, and are consequently more easily swayed by the concept of social collateral.
- Conservative risk profiles – several studies have indicated that women less likely to pick risky investments than men.
- Empowerment – by giving economic power to women in societies that often deny them significant authority, MFIs see better results from women as they are more likely to work hard and use funds in a more conscientious manner.
- Family units – women are more concerned by the welfare of dependants, and more likely to be working from home as they will often be looking after children and elderly relatives. Consequently they will work harder and be less mobile, thus making them easier for MFIs to monitor.

There is, of course, little in the Qur'an or the Sunnah to insist on such limited legal and political status for women. However, it remains true that in many of the states where consumers would be most interested by Islamic microfinance, women have so little independence that its efficiency might be called into question.

What is the solution to such a fundamental issue? On the face of it, this appears to be a choice between microfinance as a tool for social improvement and as a tool for improved economic performance. Should MFIs insist on only working in an environment where women are able to sign contracts, own property and run their own businesses, or should they simply aim to improve the economy of the region in which they are operating?

In fact, the choice of women as microfinance customers is critical to both aspects. As we have seen previously, women are simply the most efficient consumers of microcredit and microfinance. In the early days of microfinance in Bangladesh, Grameen faced a similar issue in terms of overcoming the reluctance of communities to allow women greater independence, as well as the freedom to meet with loan officers unsupervised. However, as the benefits of microcredit became clear, this hurdle was lifted, and the proportion of female borrowers went from fifty percent to today's ninety-seven percent. Ultimately, it will be in the interest of both MFIs and the community to improve access to financial tools for women, even if they are less willing to consider equivalent political rights.

Elsewhere, there are still significant issues relating to Islamic Finance, which, like microfinance, is still very much in its infancy. Most of all, despite the international organizations put in place, there is still very much the need for a coherent set of rules, with one governing body in place to set them. The variation in opinions between different scholars, as well as the more relaxed approach to Sharia'a laws in Malaysia compared to the Middle East, mean that there is still a degree of uncertainty with regard to the standardization of regulations. As one practitioner puts it,

"there is no one basic regulatory environment across geographies that manages Islamic banking today… I think that is one of the fundamental pieces that needs to be addressed in order for the true potential of Islamic banking to be realized".

CONCLUSION

When first looking at microfinance and Islamic Finance, it seems as if they are two models that are mutually incompatible. But by combining the techniques laid out above, we should be able to arrive at a model that is able to both accommodate the demands of Sharia'a law and serve the needs of those at the BOP. Furthermore, the emphasis placed on community is one which both models share, and which can provide a solution which will only aid one another during a time when disillusionment with conventional banking has never been more pronounced.

REFERENCES

1. Brigit Helms, Access to All: Building Inclusive Financial Systems, Consultative Group to Assist the Poor, World Bank, 2006, P XI
2. De Aghion, Beatriz Armendáriz & Morduch, Jonathan,2005, "The Economics of Microfinance"
3. "Islamic Financial Services Industry Development, Ten Year Framework and Strategies",
4. "Islamic microfinance and socially responsible investments", Chiara Segrado, August 2005
5. "Microfinance and Islamic Finance: can they be reconciled and how can they benefit one another?, Paul Hailey
6. "Microfinance and Islamic Finance: can they be reconciled and how can they benefit one another?, Paul Hailey
7. Microtakaful: field study evidence and conceptual issues, Anja Erlbeck,University of Cologne
8. Rahul Dhumale and Amela Sapcanin, An Application of Islamic Banking Principles to Microfinance, Technical Note, Regional Bureau for Arab States, UNDP
9. www.islamicfinance.de
10. www.wikipedia.org/wiki/Islamicbanking

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce, IT and Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you to supply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail i.e. **infoijrcm@gmail.com** for further improvements in the interest of research.

If you have any queries please feel free to contact us on our E-mail **infoijrcm@gmail.com**.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Co-ordinator

IJRCM

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals