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Micro Enterprise Financing in an Islamic Economic Framework: Bangladesh Perspective

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Abstract: *The paper studies the deficiency of the neo liberal policy agenda that aims to transform non-governmental organization (NGOs) engaged in poverty alleviation into formal financial institutions seeking access to capital market and performing on a commercial basis. It propounds that poverty focused credit programs aimedat distributive equity are logically inconsistent with an ethically neutral liberal market order. In comparison, it is inferred in the paper that Islamic economic principle affirm the logical consistency and adequacy to reality of Islamic financial program and poverty focused credit programs. These programs, as indicated by the welfare banking of Islamic Banks in Bangladesh, seek access to financial markets, which are characterized by the presence of Shariah instrument prohibiting interest and profiteering and promoting charity.*

I. Introduction

A number of NGOs have pioneered credit delivery mechanism for the poor in Bangladesh and abroad that consisted of small amounts of collateral free loansknown as microcredit, for microenterprise financing. There are several hundred NGOs registered in Bangladesh, of which about 150 NGOs have reasonably large micro credit programs (Alamgir1998). A significant aspect of microcredit is the dependence of NGOs on foreign grants, especially from IDA, USAID, OXFAM and to certain extent from Government of Bangladesh (Alamgir 98).

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There were however, not many agenciesready to provide funds for locally based NGOs; neither was there a guarantee about that continuation of donor assistance. Microcredit programs needed sources of funds that could be accessed regularly (Alamgir 98). Mobilization of resources is, therefore, critical for expansion of outreach of these programs.

A change in the policy is emerging that aims at transforming NGOs from grant -dependent organization to large profitable institutions providing banking services to the poor. This, as it is pointed out by the neo-liberal agenda, is the only way to reach millions of poor who still do not have access to credit (Sharif 1997). Of late, policies adopted by BRAC in floating a company seeking deposits in the commercial market and a few NGOs, including Grameen Bank, turning into specialized banks and borrowing from commercial money market expresses this shift in policy (DBH 2000, Hashemi & Morshed 97). The process involves a two-stage program. NGOs are to become profitable and graduate into the formal financial sector. The improved financial position of the NGOs will facilitate their access to the commercial capital market by attracting savings deposits or by investment of funds obtained through securities (Sharif 97). The shift in policy represents a return to the neo classical liberal market order (Wood & Sharif 97). It, however, leads to a contradiction that characterizes the NGOs who have the objectives of poverty reduction, which is partly an altruistic scheme and also of financial graduation which is a purely utilitarian goal. The process of transforming NGOs into formal financial institutions, therefore, creates an internal tension between compassion and capitalism (Greeley 97). The ability of a liberal market order premised on efficiency to generate funds for programs that are basically altruistic in nature needs closer scrutiny. This paper examines the logical consistency of this new policy agenda focusing mainly on the aspect relating to NGOs accessing capital market for on-lending to the poor.

A different approach has been adopted by Islamic schemes of micro enterprise financing which stand apart from the above neo -liberal framework of financing. A number of Islamic Banks and NGOs, which function in accordance with Islamic economics principles, have mobilized resources for entitlement formation by the poor on the basis of *Shariah* principles and profit - loss sharing (Sarkar 98; Athar & Loqman 98). In an Islamic frame work, the lender or investor is placed in the context of norms dictated by the *Shariah* (Islamic Law) and maximizes within this context (Chowdhury 91). These norms tend to strike a balance between individual interest and regard for others. As a result, the conflicts between the forces of efficiency and equity are mitigated by the sanctions in an Islamic economic system.

In this paper, following an introductory part, part 2 of the paper gives the objectives and methodology of the study. Part 3 examines the logical consistency ofthe new policy agenda aiming to transform NGOs into formal financial institutionsin a liberal market order. Part 4 studies the logical consistency of Islamic economic principles and the *Shariah* as a basis for Islamic banking and poverty -focused credit programs. In part 5, adequacy to reality of *Shariah* principles as a basis for banking and micro credit programs is examined in the light of actual experience of Islamic banking and microcredit programs, particularly in Bangladesh. Part 6 summarizes the findings and conclusions of the study.

2. Objectives and Methodology

The objectives of the paper are as follows:

a) To evaluate the logical consistency and validity of the modern approach that envisages NGOs to graduate into formal financial sector providing credit with funds from the commercial market.
b) To assess, as an alternative, the logical consistency and adequacy to reality of Islamic system of banking and micro enterprise financing with special reference to Bangladesh.

Methodology

The study is based on secondary data. Data on micro enterprise financing by Islamic Bank Bangladesh Ltd (IBBL) were obtained from monthly statement of the bank. Data on private bank and Islamic bank resource or deposit mobilization was obtained from Scheduled bank statistics of Bangladesh Bank.

3. NGOs and the Market Order

A new trend which is emerging aims at transforming the NGOs from grant-dependent organization into sound financial institutions with access to the capital market for funds (Schmidt & Zeitinger 98, Sharif 97). The largest institution, the Grameen Bank, has turned into a specialised bank and a profit making institutionwith funds partly from commercial market. Policy of BRAC, another leading NGO, also reveals a similar shift towards dependence on the capital market for funds (Hashemi & Morshed 97, Yunus 99, DBH 2000).

The graduation of the NGOs into formal financial sector by linking commercial capital market to the interest of the poor represent apolicy agenda based on utilitarian and neoclassical principles and a market order that consists of rational decision makers (Wood and Sharif 97, Chowdhury 98). The postulate of rationality states that decision maker in the market maximizes purely economic gains. Ethical aspects in decision, making do not appear as important consumption bundles to be maximized (Chowdhury 86). These principles are distinct from and stand somewhat in contrast to altruistic motive, that initially guided the formation of the NGOs. The distinction between purely economic or egoistic andethical or altruistic motive threatens the premises of utilitarianism, which remains the basis of rational market order (Myrdal 65).

A brief appraisal of the utilitarian theory illustrates the contradiction that arises between compassion and capitalism,as some scholars have noted, in the process of turning the NGOs from organizations promoting welfare into fully commercial enterprises.

The logical premise of utilitarianism is hedonistic psychology and economic behavior is expressed as a calculus of pleasure and pain. As long as no obstacles are created, everyone by acting on his own interest promotes the happiness of all (Myrdal 65, 43). The early utilitarians sought religious sanction to support the proposition. To these theological utilitarians human behavior, in addition to egoistic calculus, is also subject to ethical considerations and moral goal of promoting general interest, in accordance with religious precepts. But this and similar other attempts emphasized the distinction between egoistic and altruistic motives (Myrdal 65). Referring to the contradiction Myrdal claimed.

“As soon as altruism was introduced into the discussion, one was tempted to see the criterion of moral conduct in the good or the virtuous feeling which prompts the goodwill. Utilitarianism was thus abandoned, for it stands and falls by the thesis that an action is good by virtue of its consequences and not by virtue of the will which motivates it.” (Myrdal 65).

Altruism was therefore abandoned. Theological utilitarians lost importance after Bentham. By rejecting theological sanctions, the later utiliarians create a gap between the empirical fact of pleasure and pain and the binding nature of morality. They then bridge-up the gap by the doctrine of harmony. Harmony of interest based on ‘purely egoistic’ and ‘purely economic interest’ has become the central notion of utilitarianism and liberal market order (Myrdal 65).

For NGOs to graduate into commercial enterprises or Micro Finance Institutions (MFIs) require that they meet an ‘economically efficient’ market order. This uttrilitarian approach imply that market outcome depend on rational individuals as maximizing agent, pursuing ‘purely egoistic’ and ‘purely economic interest’ optimizing utilities based on consumption bundles (Chowdhury 86). The precept of rationality is based on purely liberal foundations, wherein there is no scope for forming social preferences through the mechanism of collective preferences or religious conventions; individual preferences and consumer sovereignty reign supreme.

Intertemporal rationality on the part of the lenders or savers in the money market provides the basis of capital availability dictated by market forces. This signifies policies that rely on interest – based financing. Ethics or altruism do not enter as important consumption bundles or as resource, benefit and cost in this rational framework. In the utilitarian and neoclassical market order rate of interest rations out scarce supply of capital into the uses with highest net productivity; capital, in other words' is auctioned off in the market for the highest rate of interest or dividend it can fetch (Samuelson 73). The neoclassical perspective implies intensifying competition as opposed to cooperation; NGOs aiming to graduate into formal financial sector would be acting as maximizing agents seeing profit and competing for funds in the commercial market (Sharif 97). The process leads to a competitive game between capital and labor (Chowdhury 98). In this competitive milieu poorer borrowers, lacking other sources of income, are frequently left with the option to repay their loans obtained at competitive rate, selling asset or defaulting. It prompts poor clients to become part of self - exclusionary process, as is evident from the increasing rate of dropout of poorer borrowers from credit programs. Therefore, institutions trying to graduate into formal financial sector in the neoclassical market order might be doing so at the expense of poor borrowers by focusing mainly on a wealthier clientele (Sharif 97) Further, in case of NGOs, the interest mechanism which is an expression of this rationality is contrary to 'equity' principle as it is burdensome for the poor who borrow money, because if they fall they are to pay the principal along with interest (Akhtar 98).

The utilitarian market order being based on 'efficiency' with individuals maximizing purely economic gains, poverty focused credit programs aimed at distributive equity are, therefore, logically inconsistent with markets in a liberal framework characterized by lender's 'rationality' and interest-based financing. The neo-liberal policy agenda that envisages NGOs graduation into formal financial sector in order to access commercial funds reveal the internal tension between compassion and capitalism. The dilemma is evident as a scholar poses the question: "-can social development fund be raised from the capital market?" (Sharif & Wood 97).

4. NGOs in an Islamic Economic Framework: Logical Consistency

In the preceding sections, the limitations of utilitarian polices, as they relate to NGOs, were discussed. There is no scope in this system for forming preferences based on collective preferences; consumer sovereignty and individual preferences reign supreme. Ethics or altruism-essential elements of poverty focused programs – do not figure as important bundles in this rational framework. The Islamic economic framework departs from these principles and behavior, replacing purely individual preference by commitment or loyalty to Shariah or Islamic Law.

The concept of rationality for *Shariah* is not based on the primacy of the individual will acting alone, but acting in the milieu of preferences formed in conformity with Islamic Law (Chowdhury 91). Compliance with the Sharia establishes the principle of the unity of God and of human individual as His vice-regent. Acts of consumption, production and distribution are treated in relation to humanity's felicity attained therefrom. Therefore, these acts are regarded as forms or part of worship. Consumer sovereignty is relegated to these tenets in an Islamic economic order (Chowdhury 91).

In this Islamic economic framework, an ethical aspect in decision making represents important consumption bundles which might be termed as 'imponderables'. In this context, individuals by maximizing his or her utility are really doing so by dispensing altruism to other. The welfare gained by each individual is shown to depend not only on his own utility index and those of others, but also on his contribution to the utilities of others (Chowdhury 86).

Investors Choice in an Islamic Framework

The technique of cost-benefit analysis is being utilized presently as criteria for investment or project choice. An investment or expenditure is undertaken only if the estimated benefits exceed the total cost (Weiss 67). In an Islamic economic framework the idea of cost and benefit in an investment alternative will be different from the conventional form.

Cost in Islamic economics is one of total cost, i.e. the pure economic cost plus 'non-economic' cost component: Total benefit is the sum ofpure economic benefit component and pure 'non-economic' component of benefit.

In an investment undertaking of the firmthe economic cost may denote the outlay in investment based on the firm's profit maximization motives. Now economic costwould denote the Islamic individuals or firms altruistic expenditure. Therefore, pure economic benefit would denote the benefit derived as a result of the outlay of economic cost and no economic benefit would denote the benefit from non-economic cost. Although the Muslim's motivation to incur non-economic cost is based purely on his or her Islamic belief or obligation, and the resulting benefit, represents his or her reward in the *akhira*, the worldly equivalents of these forms of pure 'noneconomic' elements of Islamic belief appear in the form of increased labour productivity, higher levels of employment and earning of the beneficiaries of altruistic expenditures which augment pure economic quantities. Non-economic benefit component thus becomes quantifiable and plays an important role in decision making in the altruistic sector of Islamic economy (Chowdhury 86).

The point to note in this formulation of Islamic decision making and preferences is that Islamic 'imponderables' or ethical aspects enter the utilitarian plane as well as the income and resource constraints as essential variable (Chowdhury 86). This stands in contrast to the internal contradiction generated by later utilitarians and neoclassical order within which the NGOs are planning to function (part 3). Referring to this conflict in neoclassical liberal order between the forces of economic efficiency and distributive equity, a scholar remarks:

"The root of this structural efficiency-equity conflict in Western politico economic order lies in the intrinsic competitive nature of an ethical neutrality of Western economic reasoning. Western social and economic institutions that rely on these philosophical foundations must then necessarily reflect the underlying conflicting type of social choices" (Chowdhury 91).

In the Islamic framework ethical aspects in decision making represent important consumption bundles.Individuals by maximizing his or her utility is really doing so by dispensing altruism to others. In this framework the presence of 'neoeconomic' and ethical values in the consumption menu of each individual narrows the gap between individual's preferences based on 'pleasure principle' and the binding nature of morality that the later utilitarian have created by rejecting the theological sanctions (part 3). As a result, the conflicts between the forces of efficiency and equity are mitigated by the sanctions within an Islamic economic system.

Poverty focused credit program aimed at distributive equity are in line with the goals of efficiency as well as equity, in a market order within an Islamic economic framework. Encouragement of expenditures of philanthropy and constraints on wasteful consumption in an Islamic economy imparts an altruistic element in consumption behavior which can be imputed to the cost-benefit estimates for investment or project choice. In the financial market which acts as source of funds for Islamic NGOs, the lender or investor is placed in the context of norms dictated by the *Shariah* and maximizes within this context. These norms motivate the individual to strike a balance between individual interest and regard for others that is between the pure economic cost and benefit and the 'non-economic' components. The individual reconciles the rationale with the demands of the *Shariah* and thereby exercise an adaptive form of rationality. Such behavior patterns are affirmed by the institutionalist view that mankind is not merely a rational chooser but also a product of cultural & social norms; in this case emanation forms the *Shariah*.

As explained earlier, in such an altruistic and cooperative decision making and resource allocation, benefits or welfare gained by each individual depend also on his or her contribution to the utility of others (Chowdhury 86). Thus, Islamic principles underscores the consistency of poverty focused credit program seeking access to financial market, with investors who exercise an adaptive form of rationality, characterized by the presence of altruistic elements in their consumption menu, as ordained by the *Shariah*.

Arrow's Postulate

Kenneth Arrow differentiates between ordering or preferences according to the direct consumption of the individual of purely economic gains and the ordering when individuals add standards of equity or ethics. The market mechanism, Arrow points out, takes into account only the ordering in accordance with direct economic gains and not ordering according to ethics or values (Arrow, 63). Ethical scheme involve choices based on unanimously accepted values rather than a method of reconciling diverse individual values. In these schemes individual may be induced to decide on the basis of collective preferences or conventions, emanation from a religious code which take into account ordering according to values (Chowdhury 91). Consumer sovereignty is relegated to or is induced to conform to the tenets of the code or conventions (Chowdhury 91).

It may be underlined here that microenterprise finance aimed at distributive equity involves individual choices that are not taken into account solely by the market mechanism alone but would require an environment established by conventions or institutions collectively accepted, or conventions emanating from a religious code.

In the Islamic economic framework, distributive equity is established by, interalia, the mandatory abolition of interest (riba) and profiteering, and entitlement formation by poor and workers is established by the institution of *mudarabah* and *musharakah* (Chowdhury 91, Akhtar 98). *Shariah* in an Islamic economy introduces standards of equity and ethics to market driven forces and Islamic voter or investor in the economy is induced to decide on the basis of collective preferences formed through *shuratic* deliberations. The presence and functions of *Shariah* Council in Islamic Banks in Bangladesh and other countries and the welfare banking program established by these Banks is an expression of this mechanism and to this effect forms collective preferences establishing an environment for entitlement formation by the poor. Therefore, Islamic principles underline the consistency of poverty focused program with investors who exercise an adaptive form of rationality incorporating altruism and ethics in their consumption menu, as ordained by preferences emanating from *Shariah* and *Shuratic* deliberations.

5. NGOs in an Islamic Economic Frame work: Adequacy to Reality

In the preceding sections contradictions characterizing the NGOs leaning increasingly toward secular utilitarian principles and seeking access to commercial market for funds have been discussed. In this context, logical consistency of the poverty focused credit programs in an Islamic economic framework has also been outlined. In this section the adequacy to reality of Islamic economic principles and *Shariah*, for NGOs functioning along Islamic lines will be examined.

The environment of the Islamically requisite production and entitlement formation by the poor is established by the institutions of cooperation and profit-sharing termed as *Mudarabah* and *Musharakah* as explained below. These and other similar *Shariah* instruments of financing and contract are being widely used by Islamic Banks and Islamic NGOs for microenterprise development (Ather & Loqman 98, Bashir and Darrat 92 Akhtar 98).

Mudarabah

Mudarabah financing activity includes two related sectors. The first comprise the financial intermediary (bank or an NGO) and a business firm or individual entrepreneur while the second comprise the intermediary and individual investor.

This mode of financing brings capital and labor together. It enables capital to earn profit by entrusting capital to the entrepreneur or individual who return the principal amount plus the agreed share of profit to him after completion of trading or production activity. The investor is called *Rab-ul-Mal* and the agent as *Mudarib*. *Rab-ul-Mal* participate with his funds and *Mudarib* with his dexterity and labor in the project. They share profit according to the agreed ratio and loss is entirely borne by *Rab-ul-Mal* (Akhtar 98:6 Chowdhury 86).

Musharakah

Musharakah mode of financing envisages both partners providing capital. Sharing of profit is stated in the contract and losses are shared according to capital contribution. Modern application of *Musharakah* includes the business activities of cooperative societies.

Bai Muazzal

In case of *Bai Muazzal*, the bank based on client's proposal, purchases inputs from the market for the client who repurchases them from the bank at a price which include cost plus a mark-up in lumpsum or on installment. The price of the input charged by bank has to be fair and just (Akhtar 98, Bashir & Darrat 92 Chowdhury 86 Chowdhury 98).

A number of financial institutions in many Islamic countries based their activities on *Shariah* principles, particularly profit and loss sharing (PLS) arrangement replacing the interest payment system (Chowdhury 86 Sarkar 98). One of these institutions is the Islami Bank Bangladesh Limited (IBBL) in Bangladesh. The Bank functions in accordance with *Shariah* principles. The Bank attracts individual deposits in the commercial market and replaces interest payment on financial capital by profit-loss sharing. In this relationship with the subscribers the Bank act as *Mudarib*. The Bank then channelizes the savings into productive investment, a part of which is allocated for employment and income generating activities of the rural poor through its Rural Development Scheme (RDS). Its relationship with borrowers takes the form of *Rab-ul-Mal* (Sarkar 98, Chowdhury 98, Akhtar 98).

Banks based on *Shariah* principles add equity aspect and ethics to market forces and, as indicated earlier (section 4), investor or lender proceed on the basis of collective preferences formed by means of Shuratic deliberation (i.e. *Shariah* council in Banks or organisation).

With a view to ascertain adequacy of *Shariah*-based banks and credit programs to customs and valuation of people, their comparative performance in regard to accumulating resource or deposit from financial market is appraised in Bangladeshis appraised:

Exponential equation of the following form is applied to private and Islamic banks – Private bank

$X = Ab^t$ (1)

where,

X = deposit

t = time

In logarithmic form, equation (1) is expressed as –

$lnX = lnA + t(lnb)$ (2)

or, $x = c_1 + c_2t$ (3)

Where, lower case letter x, c_1, c_2 represent lnX, lnA and lnb, respectively.

Islamic bank

$X^i = A^i b^{it}$ (4)

Analogues to private banks –

$x^i = c_1^i + c_2^i t$ (5)

Where, x^i and t represent quarterly deposit and time respectively.

Estimation of equation (3) in regard to private bank yield result provided in table 1.

Table 1: Deposit Mobilisation – Private Bank Bangladesh (2009-2014).

Dependent Variable: x^i
Method: Least Squares
Sample: 1 24
Included observations: 24
x^i = C(1) + C(2)*TIME

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	16.26372	0.018740	867.8390	0.0000
C(2)	0.043131	0.001312	32.88506	0.0000

R-squared	0.980062	Mean dependent var	16.80286
Adjusted R-squared	0.979156	S.D. dependent var	0.308067
S.E. of regression	0.044477	Akaike info criterion	-3.308025
Sum squared resid	0.043521	Schwarz criterion	-3.209854
Log likelihood	41.69630	Hannan-Quinn criter.	-3.281981
F-statistic	1081.427	Durbin-Watson stat	1.444635
Prob(F-statistic)	0.000000		

Source: BB (Various issues)

Growth in deposit variable is significant at 0.5 percent level, while R^2 value is 0.980062.

Estimation of equation (5) in regard to Islamic banks yield result provided in Table 2.

Table 2: Deposit Mobilisation-Islami Bank Bangladesh (2009-2014).

Dependent Variable: x
Method: Least Squares
Sample: 1 24
Included observations: 24
x = C(1) + C(2)*TIME

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	14.95878	0.202033	74.04140	0.0000
C(2)	0.059916	0.014139	4.237525	0.0003

R-squared	0.449403	Mean dependent var	15.70773
Adjusted R-squared	0.424376	S.D. dependent var	0.631987
S.E. of regression	0.479488	Akaike info criterion	1.447461
Sum squared resid	5.057999	Schwarz criterion	1.545632
Log likelihood	-15.36953	Durbin-Watson stat	2.193486
F-statistic	17.95662		
Prob (F-statistic)	0.000338		

Source: BB (Various issues).

R^2 of the equation is relatively low; it may be added that data relating to a longer period of time is likely to yield higher R^2. Limitation of data and resources preclude extension of time period for longer duration. DW statistics, however, is close to 2, indicating no autocorrelation. Based on t-ratios, growth in deposit variable is significant at 0.5 percent level.

Equation in table 1 can be represented in the form –

$$lnX = 16.263 + 0.043t \tag{6}$$

Equation in table 2 can be represented in the form –

$$lnX^i = 14.958 + 0.059t \tag{7}$$

Equation (6) and (7) yield –

$$x = 11.524\ (100^3)\ (1.044)^t \tag{8}$$

$$x^i = 3.134\ (100^3)\ (1.06)^t \tag{9}$$

It is inferred from equation (8) and (9) that growth in deposit of Islamic *Shariah* based banks are marginally higher, compared to private bank. Exponential growth of deposit in private commercial bank is 1.04 while growth of deposit in Islamic bank is 1.06.

Effective comparative performance of Islamic bank in accumulating finance is evidently very significant. Concept of *Shariah* based bank was new, when these banks commenced in Bangladesh. Given the early disadvantage, relatively effective functioning of Islamic bank, as is indicated by the comparative appraisal of commercial & Islamic banks, emphasize adequacy of Islamic economic principles to customs and valuations prevailing in developing economies as Bangladesh.

Foregoing appraisal of banks as IBBL in Bangladesh indicate reliably that *Shariah* instruments of financing are sustainable and adequate to reality in view of their conformity to custom and actual valuation held by people in Islamic communities, providing a basis of resource mobilization for Banks, with microcredit program.

The experience of IBBL has been reaffirmed by the successful performance of Shariah- based banks and finance companies elsewhere, including the Islamic Bank of Bahrain, Jordan Islamic Bank of Finance & Investment, Kuwait Finance House, Islamic Development Bank of Jeddah and a number of other banks which have replaced interest payment mechanism by *Shariah* principles and instrument of financing (Chowdhury 86). They indicate that replacement of inequitable interest payment by a profit-loss sharing and *Shariah* instruments of financing will enhance rather than retard investment funds and provide a continuous flow of financing to entrepreneurs (Bashir & Darrat 92, Akhtar 98).

Part of the investment funds generated by IBBL is utilized for entitlement formation by the poor landless, laborers and marginal farmers by means of microenterprise financing in rural areas as is evident from the predominance of Rural Development Scheme (RDS) of the Bank. Table- 3 presents annual disbursement of finances to rural poor for employment and income generation by IBBL.

The performance of IBBL's micro investment program as indicated by its growth underscores its potential for wider application and replicability, comparable to the performance of any of the leading NGOs now working in Bangladesh (Sarkar, 1998, Akhtar & Loqman 1998). The rate of recovery of micro investment of the IBBL as of April, 2001 is about 99 percent which underline the sustainability of the micro investment program of the IBBL (IBBL 2001). Its percrmance has to be viewed in the context of the advantageous position that GB and other NGOs

Table 3: Performance Rural Developments Scheme (Rds) of IBBL

(taka in million)

Year	Disbursement
1996	18.482
1997	41.878
1998	71.5156
1999	194.880
2000	388.187
2001	443.557
(upto Sept.)	
2008	3011.72
2009	3752.20
2011	7072.20
2012	10393.16

Source: IBBL, Dhaka, October. 2001, IBBL (2012)–Barsikprotibedon

possess. Major part of the funding for the GB has been at a preferential rate, borrowed from the Bangladesh central bank, international donors and local commercial banks (Hashemi & Morshed 97). The IBBL does not have access to subsidized sources of donor funds like GB, BRAC and other NGOs. The performance of the IBBL demonstrates the potential of the Bank to provide sustainable mobilization of fund and widespread financial services to the poor independent of donor assistance. In addition to the IBBL, microenterpnse schemes are also implemented by other *Shariah*-based organisations, which reinforce the experience of IBBL's micro investment program (Sarkar, 1998, Athar & Loqman 1998).

The poverty focused micro investment program for the poor by IBBL partly represents Banks depositor or investors, individual or firms, ethical transaction and altruistic expenditure. These investors' motivation to sustain the outlay of the program is based partly on their Islamic belief; the resulting benefit represents reward in the *akhira* (other world). The worldly equivalents of these elements become quantifiable as benefits in the form of increased labor productivity and income of the beneficiaries (part 4 above).

Performance of welfare oriented micro credit program implemented under RDS of the IBBL with resource mobilized in the market, provide supportive evidence that the *Shariah* principles beratingfixed interest payment and profiteering enables lenders rationality to be adapted to 'equity principle' and incorporate ethics and altruism, in addition to income and resource constraints, as important consumption bundles in the utilitarian function of the investors or lenders to be maximized. The adaptive rationality and the altruistic framework of decision making and resource allocation represented by welfare and *Shariah* banking of this nature envisages that preference formation is based on individual will acting in conformity with collective or Shuratic preferences and that benefits or welfare gained by each individual depend not only on his or her own utility but also on ethical value and his or her contribution to the utility of others. The experience and potential of IBBL demonstrates that *Shariah* instruments of resource mobilization and micro credit financing are sustainable and adequate to reality in view of their conformity to customs and actual valuations held by people in Islamic communities.

6. Conclusion

The foregoing analysis studies the deficiency of the neo-liberal policy agenda that aims at transforming non-governmental organizations (NGOs) engaged in poverty alleviation into formal financial institutions seeking access to capital market functioning on a commercial basis. The paper at the same time examines the Islamic scheme of micro enterprise financings as an alternative framework for welfare programs. The paper contends that poverty focused credit programs aimed at distributive equity are logically inconsistent with an ethically neutral liberal market order characterized by interest-based financing and lender's 'rationality'. In contrast, Islamic economic principles affirm the logical consistency of poverty-focused financing programs seeking access to resources in financial markets, characterized by the presence of altruistic, ethical elements in the consumption menu of the individual' as represented by the *Shariah* instruments prohibiting interest and profiteering and promoting charity.

The paper studies the logical consistency and adequacy to reality of the Islamic principles to actual conditions, customs and valuating prevailing in the Bangladesh economy. It finds supportive evidence that 'Islamic economic principles, by incorporating ethics and altruism as important consumption bundles in the utilitarian function of the depositors or investors to be maximized, ensures continuous flow of financing to credit program, as indicated by the financial and welfare banking program introduced by the IBBL and other *Shariah*-based banks in Bangladesh.

The modern neo-liberal approach prompts the NGOs to meet the demand for micro credit on a competitive commercial basis with access to capital market and full - cost pricing of services. This approach resembles the classical utilitarian appeal for leaving everything to the market for not allowing compassion to interfere with economic process (Galbraith 58). The new agenda is reminiscent of the tradition which had advocated,a with post-feudal Europe the abolition of English Poor Law, an Act framed to alleviate poverty, supported by a fund subscribed by each church parish (locality) for the benefit of the poor. To urge the NGOs serving the poor to be profitable and efficient in an ethically neutral market order is to expose the poor to the built-in criteria that insecurity and vicissitude of the competitive market is essential for efficiency and sustenance.

Shariah based financing provides an alternative vision which stands apart from the harsh neo-liberal policy agenda. Available evidence from the IBBL's experience of its resource mobilization and micro program indicate that *Shariah* modes ensure a sustained flow of financing to microenterprises relying on market driven forces without government or aid assistance - a conclusion that could not be validly applied to traditional NGOs in Bangladesh.

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