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رَبِّ اشْرَحْ لِي صَدْرِي(25)وَيَسِّرْ لِي أَمْرِي(26)وَاحْلُلْ عُقْدَةً مِنْ لِسَانِي(27)يَفْقَهُوا قَوْلِي(28)

# Analyzing The PLS Based MitGhamr Savings Bank Created for the Alleviation of Poverty – Focusing on Religion as a Catalyst


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- Why we need a change in the interest based conventional micro finance approach for the alleviation of poverty?
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- Analyzing the PLS Based MitGhamr Savings Bank Created for the Alleviation of Poverty – Focusing on Religion as a Catalyst.
- Recap of Divine Socio Economic Safety nets discussed in the 3rd Global Micro Finance Forum (Outreach 100% reaching all needy).
- Conclusion and Recommendations.

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# Impact of Interest Based Conventional Micro Finance In Bangladesh

- The World Bank Development Research Group **Working Paper released in March 2014** indicates phenomenal growth of microfinance institutions representing 30 million members with over $2 billion of annual disbursement over the past two decades.
- The paper's results suggest that microcredit programs have substantial positive effects, while at least 7 (seven) independent studies found **no or even negative effects.**
- These studies with less restrictive assumptions find limited or no benefits of microfinance. Studies include the following, among others: Karlan and Zinman 2010; **de Mel, McKenzie and Woodruff 2008**; Augsburg et al., 2012; Attanasio et al., 2011; Banerjee et al., 2010; Crepon et al., 2011; Karlan and Zinman 2011).

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# Reasons of Conventional Micro Finance Failure


- In India Rs: 39 Billion of interest income on Muslim money in Kerla banks cannot be used for welfare because interest is forbidden.
- Rs 2 Billion Shrine caretaker welfare money Cannot be used for welfare of the people.
- Rs 1.6 Billion Income from Waqf properties worth Rs 60 Billion is mismanaged every year.

*Source:* WDR 2014 team.

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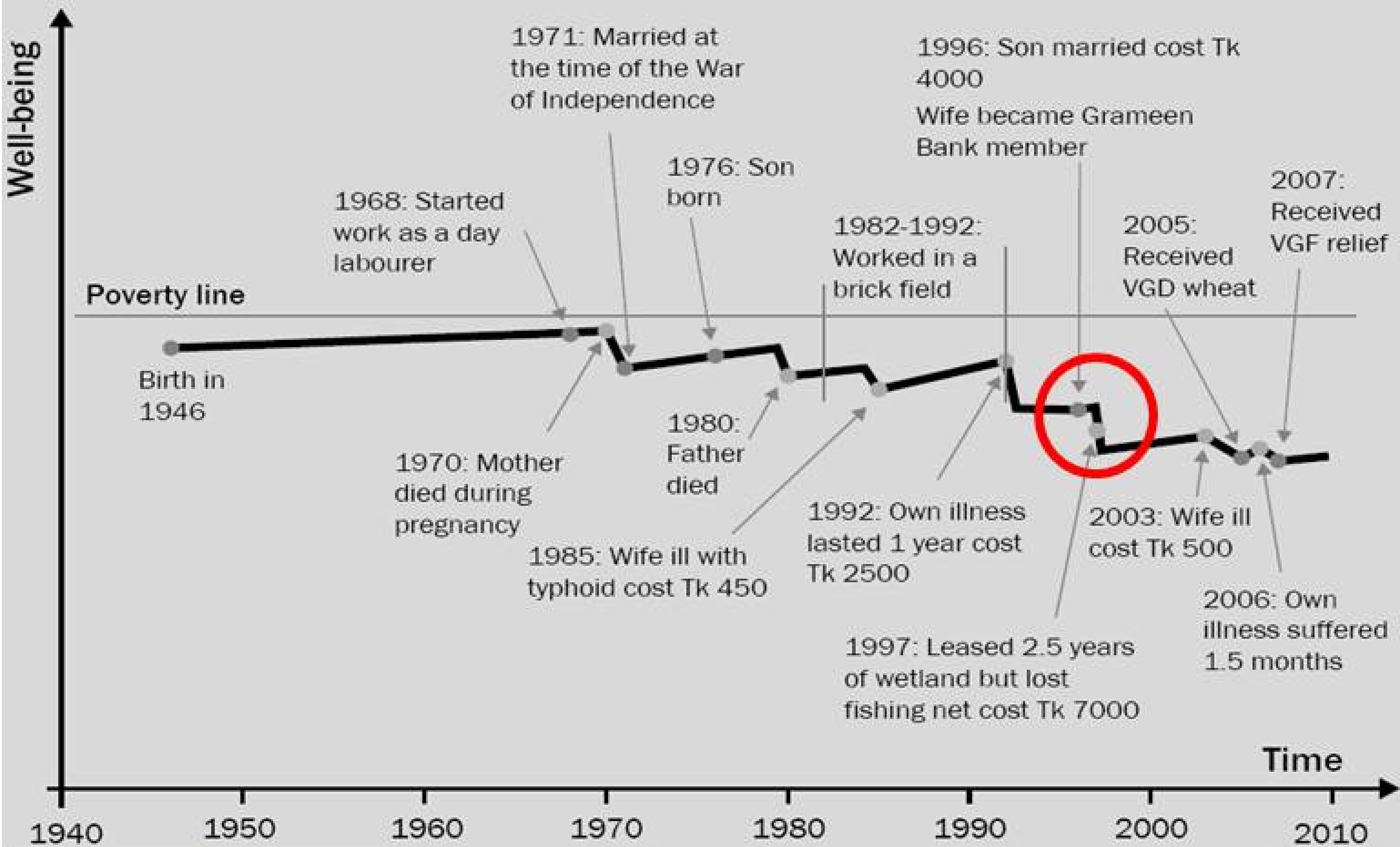
# Case Study 1 - Microfinance Failure




Source: ODI Chronic Poverty Report 2014 - 2015

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# Case Study 1 – Solution "Manage Risk of Failure"

MF Customer & His MF Business Risk Analysis

Identification of his MF Business Risks

Monitoring of MF Business Risks and Failure

Implementing Risk Mitigation Plans in case of Failure

Asset or crop loss · Employment shock · Disasters · Illness · Price shocks · Crime or safety

Source: ODI Chronic Poverty Report 2014 - 2015

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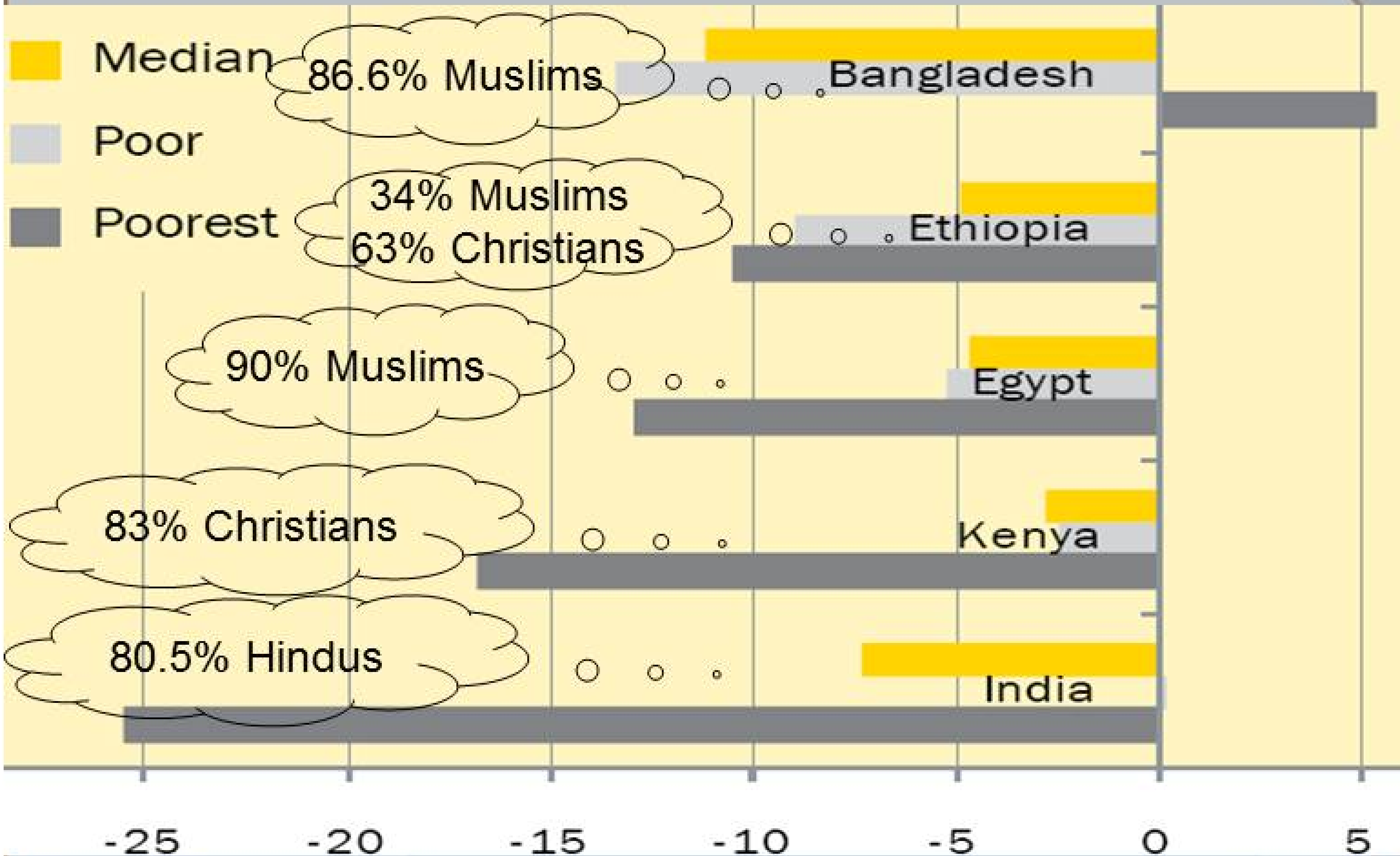
# Case Study 2 – Decrease in Asset Ownership

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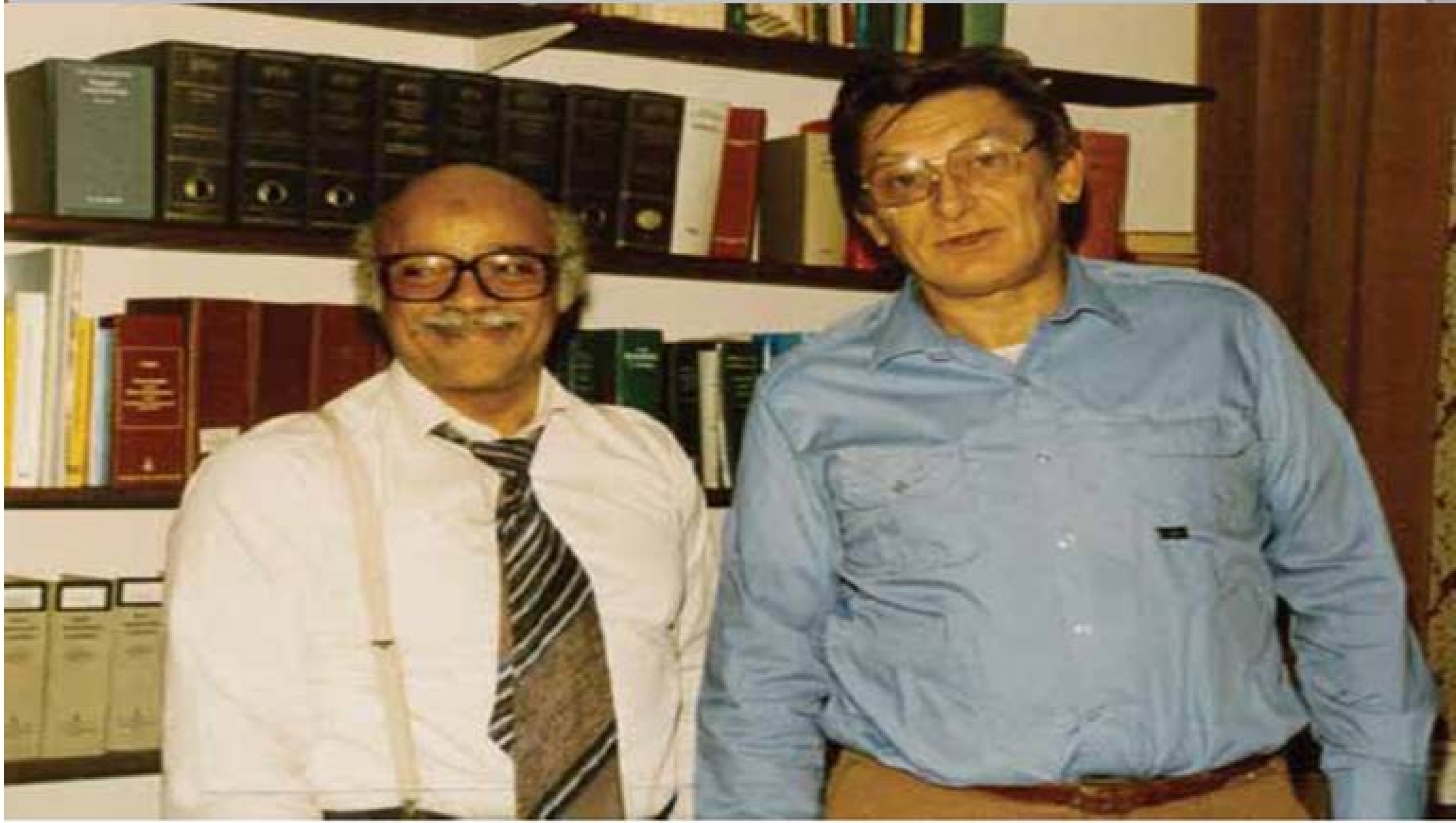
Source: ODI Chronic Poverty Report 2014 - 2015

# Case Study 3 – The MitGhamr Experiment 1963



Ahmed el Naggar 1975 with Günter Klöver

## Case Study 3 – The MitGhamr Experiment 1963

- The MitGhamr German development aid project was named as the "Development of a regional savings bank sector in Egypt".
- German government and the organisation of savings banks backed the project with over 0.75 million Deutschmarks and the Ministry of Commerce Egypt contributed 60,000/- Egyptian pounds.
- Walter Quade, the chairman of the Frankfurt savings bank, asked: "To save without interest how is that supposed to work?"
- El Naggar explained his principle of profit and loss sharing that was the core of his model. All savings had to be invested in projects that were decided upon by the members of the village.
- The profits of these investments would then be split to give the savers a return, the advantage being that all the money was to be used for the benefit and under the control of the community itself.

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# Case Study 3 – The MitGhamr Experiment 1963

- In the same way, losses were not the sole burden of the debtor but borne by the community. In reality he tried to implement a financial system that is based on profit and loss sharing, i.e. risk sharing, rather than shifting the risk.
- In 1963 from cologne Germany he drove his mobile banking branch office to Cairo. He was accompanied by the Klöwers and other German friends.
- El Naggar chose the area of Mit Ghamr, north of Cairo, and went to the farmers as well as to the local authorities, such as the Imams of the villages, to explain and promote his idea.
- The imams of the rural communities helped him to promote his interest-free model of a rural savings bank. As advisors they gave confidence to the farmers regarding Sharia compliance of his idea.

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## Case Study 3 – The MitGhamr Experiment 1963-69

- In the first year, 25.000 accounts were opened at the MitGhamr bank with a volume of over half a million Deutschmarks. The success inspired the creation of eight more savings banks in other areas, namely in Dakahlia and Zifta and also in Cairo. But the great success proved to be the biggest obstacle.
- The Egyptian employees were unable to cope with the task of investing the huge sums of money in order to generate profits.
- Once the Germans ended their counselling activity, the banks failed in generating the necessary returns.
- "Another factor was the growing nervousness not only among the conventional bankers but also within the Egyptian government".

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# Case Study 3 – The MitGhamr Experiment 1963

- The Egyptians had always looked at conventional banks, with suspicion (i.e. they are non-sharia compliant) and with a live real working Islamic banking model, government officials feared growing Islamic influence in the country side.
- As a result, in 1969, the well functioning sections of the savings banks were forced to integrate into the state-owned Nasser Social Bank and thus the real Islamic Banking experiment ended.

Question:

1. What were the main reasons of failure of the MitGhamr Experiment?
2. Can the same issues mentioned be resolved today?

Source: The Case study was developed from a 6 page article written by Rebbecca & Gerd Klower and published by the European Association for Banking and Financial History (EABH) dated 1st January 2014.

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# Islamic Socio Economic Sa... Nets – Based on Divine Guida... – S... mary

Hedging Risk of loss of Capital that is idle for more than 1 year by providing Micro Finance of 2.5% of the idle capital amount.

Hedging Risk of losing health, job, reputation, children, wife etc. by providing Micro Finance to a person you know deserves.

Hedging Risk of losing earning, opportunities to increase wealth by providing Micro Finance to a person you know deserves.

Hedging Risk of questions in the hereafter about why we did not provide Micro Finance to Allah when a person was in need.

Hedging against political instability and chaos.

...se it anyway

... Charity?

...y (ISR)

Not to charge Interest (Usury)

Selection of financing

–87.2 g Gold)

Sadaqah (Expiati...

Whatever...

Qurd-al-Hasan loan to be gi...

Shortfall covered by Bait-ul-maal

Micro Finance Inst. Corp. Soc. Val.

Makes it possible for Have-nots to survive

If Islamic Micro Finance is practiced resulting in helping the poor. Barakah will be provided in whatever we do. We often see people quoting this guy touches mud and it turns into gold.

(Actually he must be providing micro finance to some genuine person)

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# Conclusion & Recommendations:

- Seven independent studies conducted between 2008 – 2012 indicate that Conventional Microcredit with an average 18% cost of funds for the poor doesn't help in the alleviation of poverty.
- The MitGhamr PLS based model worked for 6 years and failed because of lack of systems / controls / business and political will.
- Five safety nets - Recommended Islamic Hedging for the rich:
  i. 2.5% Zakat for hedging of capital and cleansing of wealth
  ii. Sadaqa for hedging against unexpected loss / accidents.
  iii. Give whatever is in excess to hedge against extravagance
  iv. Provide (Al-QAH) to hedge against questions after death.
  v. Develop Bait-ul-Maal people welfare fund for hedging against political instability and chaos.

# Thank You

Please send your questions and comments to my following email address:

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