Proposing the practice of Islamic Economic Model within the Conventional Economics paradigm: a case for Social Islamic Bank

BARJOY BARDAI

Graduate School of Business
UNIRAZAK, Kuala Lumpur, Malaysia, +603 7627 7000
E-mail: crm@unirazak.edu.my


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The best approach to apply the Islamic Economic Model is to practice the micro perspectives of it but in a complete model. A complete model of the Islamic economy can be introduced in the form of Financial mechanism. Islamic Financial model can conveniently be applied in a conventional economic environment. This has been the approach taken by scholars like Abul-Ala Mawdudi in India. This was how Islamic Banks has developed from the 60’s in Egypt, India, Pakistan, Malaysia and the Middle east countries. Though we have successfully implemented an Islamic Financial model side by side with the conventional financial
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model in the conventional economic system and made some great impact in terms of support and responses from the public, we still are facing some basic essential hurdle that limit our success rate.

The actual functioning of an Islamic economics must be based on the three principles below: The abolishment of interest on money, The strive for economic equality and the establishment of a superior business ethic.

The reality is that the Islamic financial sector has a lot of constraint. Unfortunately, although Islamic banks and finance that is supposed to be an interest free sector, has never promised to be a profit free sector. This is because Islamic financial sectors have been initiated as a private banking and financial sector in the economy. All the banks are owned by a set of shareholders who expect to make some return from their investment in the form of dividend. The depositors who saved their money in the Islamic banks also expect some return in the form of profit from their investment and deposit.

Hence the management team in the Islamic banks and financial institutions, acting as the fund managers, are on a constant pressure to perform well in managing the shareholders fund and the depositors’ fund they managed. To perform well mean they must make the maximum return in the form of profit to be shared with the depositors and the shareholders.

Where would Islamic bank derive their profit from? The only opportunity available is from investing the depositors’ funds. Depositors’ fund could be invested either in the form of joint venture investment (Mudharabah and Musharakah) with their clients or by lending the depositors fund (Murabahah) to their clients who becomes borrowers. It is through this profit sharing and the borrowing fees collected from their clients that they could expect their return.

That mean, the bank had to impose a maximum possible financing charge and profit sharing rate in order to perform well. Hence it is just unfair to expect the Islamic banks and financial institutions to provide concession to the borrowers and the joint venture partners – namely the SMEs and the micro businesses.

When measured in terms of the true Islamic economic model, the financial system implemented in the Islamic financial model still lack the spiritual perspective that has always been seen as the essence of the Islamic system.

As a result Islamic banks and financial institutions worldwide have not seen to be distinctly different different from the conventional banks operation. This was the primary source of Professor Kuran’s assertion that "interest has never been purged from economic transactions, and that Islamic finance is exotic and complex – with profit-loss sharing techniques such as ijara, mudaraba, murabaha and musharaka all involve thinly disguised payments of interest. Kuran further criticised that banks claiming to be Islamic in fact "look more like other modern financial institutions than like anything in Islam's heritage”.

A very important criteria of an Islamic economic model as projected by Omer Chapra is that “Islamic economic system ‘exists’ in the sense of having its own ethical values, a set of economic objectives, as well as policy instruments. It must be seen as an “optimum regime” - which optimally combines the concerns of social justice with those of economic growth. Hence the problem is to maximize social welfare subject to well defined constraints and ‘initial conditions”.

The true Islamic banking approach is however rather different from the conventional financial institution’s approach in that in Islamic practice, there is no separation between financial institutions and other business institutions. Hence the term Islamic Bank is actually a miss-normal. An Islamic bank is actually a conglomerate that involve in many type of businesses and holding many type of trading assets such as properties, motor vehicles , plant and machineries. At the same time the conglomerate also offer some financial
services to accommodate the trading activities with their clients and suppliers.

Two type of financing that Islamic banks could offer are the Debts and equity financing. Though debt financing such as installment sales and deferred payment schemes are allowed in Islamic banking but the Muslim are more encouraged to use equity financing in their funding mechanism. The purest form of Equity financing will be the venture capital and common shares subscriptions in the businesses. However the concept of temporary investment using the concept of Declining Balanced Investment (Musyarakah Mutanakisah) is gaining popularity in the Islamic banking practices. In its basic forms, the financial institutions will finance a particular project or business as an equity investor. It however allow the entrepreneur’s partners to buy back the equity held by the financial institutions at any time within a specified time period. The entrepreneur’s projected return on the business will be used as the basis of gauging the return on the equity investment. It will still be measured in terms of percentage of the total equity in the business. It created a true partnership arrangement between the entrepreneurs and the financial institutions in running the business. Can these structures and instruments be initiated and offered by Islamic banks?

Islamic banks must split itself into two different type of activities – the profit motivated and the not-profit motivated operations. The for-profit Islamic banks must strive to re-structure their operation as a conglomerate with financial facilities built-in rather than pure financial institutions. It must be offering the equity based financing rather than the loans based financing. The not-for profit banks which will become the more crucial in projecting the Islamic spirit must strive to become a pure social bank.

Islamic banks and financial institutions has all the necessary framework to operate as a more friendly and accommodative lending institution following the purest Islamic principles except for the profit maximization motive. To remove this profit maximization goal mean to remove the expectation of the depositors and the shareholders of the banks and financial institutions.

The only way this could be done is by divorcing the Islamic financial system from the conventional system equivalent. After all, in its truest form there is no such thing as personal loans and business loans concept in the Islamic financial system except for the truly needy person and this can only be done through the benevolent loans system. We must divorce our Islamic financial system from the conventional system and not try to compete apple to apple with them.

Hence the way forward is to change the status of the Islamic banks and financial institutions from that of private banks into Social Islamic banks. Social bank means the bank has to be owned by the whole ummah – perhaps under an ummah foundation. Hence the bank is not under pressure to generate profit on itself… It will strive to contribute and help the whole ummah.

How about the depositors expectation ?. How could we eliminate or reduce their expectation to make some return from their deposit and investment in the banks and financial institutions?.

They are a few Islamic banks operating in Malaysia with a few more licences up for offer to Foreign Islamic bankers. At the same time all the existing conventional banks in Malaysia are offering Islamic banking services through their Islamic twin operation arrangement of sort. Even after having been introduced for more than three decade, Islamic banking system had merely penetrated less than 20% of the banking services market in Malaysia. Hence the opportunity are still vast and the potential are great provided some innovation could be introduced in the field of Islamic Banking in Malaysia and worldwide.

This is a long term project that is hoped to shift the paradigm in Financial Management of the Muslim ummah worldwide and to project the true model of
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Islamic Financial system. It is to implement a model of Islamic financial and Investment Institution that have been researched for over 20 years.

Qardul Hassan

Qardul Hassan is a phrase from al-Qur'an which appear in six verses found in the six surah of the al-Qur'an. It has been translated literally as ‘Benevolent Loan’ i.e. loan given with kind heart without expecting any worldly return. The phrase ‘Qardul Hassan’ has been mentioned in the al-Qur'an side by side with the call to prayer, fasting and zakat. In every ayat, Allah S.W.T. challenged all human being to ‘lend’ to HIM in the form of ‘Benevolent loan’ by promising them great reward in the day after. Though many ulama’ had interpreted ‘Qardhul Hassanan’ as mere sadaqah, jariah and infaq, we believed that the ‘literal meaning’ i.e. benevolent loan deserve its own merit and should be emphasised as they were highlighted seven times as challenges. When Allah S.W.T. created a specific ‘term’ or ‘phrase’ in the Qur'an, it must have a special meaning and significant.

The model Islamic Financial and Investment Institution based on the Qardul Hassan Principle

The basic principle is to create a ‘financial and investment’ institution which is wholly owned by the ummah at large but will be managed by a strong professional financial institution. The ‘professional management company’ will be managing the ummah ‘Financial and Investment Institution’ as a trustee at a normal fee structure. This will create the ‘income base’ for the management company and at the same time provide the opportunity for the company to contribute their expertise to develop to the Muslim Ummah through the efficient management of ‘Ummah Financial and Investment Capacity’.

The most important goals that must be achieved in the end is the implementation of the ‘Qardul Hassan’ principle in the financial and investment system. The immediate effort is to reverse the ‘borrowing society’ trend into ‘lending society’ culture. Basically we want to promote the culture of lending by the public to the ‘ummah institution’ i.e. the Qardul Hassan Bank with the direct intent to ‘answer the challenge’ by Allah S.W.T. in the eight verses from the seven surah of the Al-Qur’an to ‘lend to Him with a promise of huge reward in the day after’. The loan will be kept in a ‘trust account’ belonging to each depositor. It is just like any al-Wadi’ah account deposit in an existing Islamic bank. The model is based on several fundamental Islamic principles that were tied and wrapped up as a package focusing on ‘Qardul Hassanan’ as the integrating factor.

The basic tenet is that all human being have been appointed as the ‘trustee’ to Allah S.W.T. in this world. Every human being act as trustee to manage all the wealth belonging to Allah S.W.T. Hence all assets and wealth that are in the hand of every human being belong only to Allah S.W.T. We as human being are just the trustee and the ‘Care taker’ of these wealth.

It is our duty and responsibility as the trustee to manage and maintain these wealth to generate the maximum benefit that must be shared with the rest of the ummah. If we think that we are not capable of managing these wealth; do not have the expertise or do not have the time to manage these assets and wealth; we must then hand over these assets and wealth to the professional to discharge our responsibility to Allah S.W.T.

We can discharge this responsibility ‘temporarily’ just as to make sure that every cent of these assets and wealth are properly managed and generate benefit to all mankind. The concept of ‘Temporary Waqaf’ become the pillar of the model that we want to project. The idea is to promote the culture of lending to a ‘waqaf’ institution - all assets and wealth that is idle or not well used by the ‘current owner’ or ‘trustee’. The Qardul Hassan Bank that we will be creating will be ‘the waqaf institution’ as it will be owned by the ummah instead of any individual or group in the society.
Initially, the activity of ‘temporary waqaf’ will be confined to ‘cash and money’ only for practical reason. The method is similar to that of saving money in the current account of the conventional banks. The only different is that when an individual make a deposit, they will make a ‘niat’ or ‘intent’ that he/she is ‘answering the call or challenge of Allah S.W.T’. in the six ayat in the al-Qur’an ‘to lend to HIM.’

As a temporary waqaf, the fund can be withdrawn at any time by each individual depositor as and when is required. However, experience shows (from the bank’s statistics) that only about 30% of the fund will ever be used or circulated at any time. The rest will be idle or ‘solid’ for years to come. These are the portion that will be mobilized for the ummah development program. About 50% of the fund will be used as ‘Circulating Fund’ to be lend to the needly groups such as for Educational loans, Low cost housing loans, Loans for economic activities of the poor and the needy groups in the society.

The challenge is to make sure that all the fund managed by the ‘Qardul Hassan Banks’ are safe and sound. We need to introduce measures that will make sure that all loans are safe and collectable - which will ensure a ‘zero bad debt’. A sinking fund investment scheme could be initiated to match all loans disbursed by the institutions. At a 10% return per annum for example, an investment will doubled in eight years. Hence, over a long run all loans will be appropriately protected by the ‘Sinking Fund Investment Scheme’. Of course collection and credit control will still be maintained to make sure that ‘zero risk’ target will be achieved in the loans management without affecting the interest of the needly groups in the loans disbursement program.

The other 20% fund will be invested in the most advanced financial institution’s investment program. The trading in financial instruments for examples will be the main activities of the bank’s investment program. Basically, the program involve buying and selling of financial instruments such as the Islamic version of Bank Guarantee, Standby Letter of Credit, Medium Term Notes, Treasury Bills, Bonds, Promissory Notes etc.

The investment strategies is to maximise the margin between the buying and the selling price by capitalising the terms. With the initial fund available, the bank will utilise the ‘proof of fund’ as the capacity to be leveraged. They will be able to purchase instrument on a ‘Fund first basis’ allowing them to negotiate for the best rate. Immediately upon signing the purchase contract (before actual delivery), the bank will sell back the instruments on ‘the collateral first basis’ again allowing them to negotiate for the best price with the instruments in hand. This will widen the margin gap and hence allowing them to generate greater profitability.

The bank will not pay any fixed return to the depositor as the depositors do not intend to make a worldly return from their deposit. (Depositors must always be projected on the promise of great return in the day after as stipulated in the al-Qur’an). Having said that, the bank will make every attempt to make as much return from the investment above to be able to distribute funds for several purpose as follows:

a. To pay for the management fee of the banks – all the lending and the investment activities.

b. To give reward to the depositors in the forms of ‘Hibbah’ or gifts at the right moment e.g. during Muslim celebration etc.

c. To generate higher capacity to lend to the needly group in the society.

The bank will introduce other Qardul Hassan instruments such as Qardul Hassan Bond, Qardul Hassan Unit Trust, Qardul Hassan Property Trust and other instruments to facilitate the making ‘temporary waqaf’ using the Qardul Hassan mechanism by the ummah at large. The bank will expand its role to cover all aspect of wealth management unlike the conventional banks which forcast only on monetary wealth.
The bank will be groomed to become the ultimate Islamic Financial and Investment Institution model globally.

**The structure of Qardul Hassan Bank**

Qardul Hassan Bank will be the ultimate ‘Waqaf Institution’ for the whole Muslim ummah worldwide. The institution will be owned by the ummah and managed by a professional muslim bankers, financial and investment experts. The institutions will be supervised by a non-government-organisation (NGO) through Yayasan Qardul Hassan.

‘Qardul Hassan Bank’ could exist in a form of ‘virtual institution’ on a global scale. All the activities could be farmed out to the existing financial institutions as follows:

- The organization and management of the bank will be farmed out to the professional managers.
- The deposit collection activities will be farmed out to all the existing banks under the ‘Qardul Hassan Window’ concept.
- The investment activities will be farmed out to a special investment institution created under its umbrella.
- The loan disbursement activities could be farmed out to all the existing lending institution will act as the coordinator.

Qardul Hassan Bank will pioneer the concept of ‘Virtual Banking’ and the ‘Professional Bank Management Company’ concept. The professional managers will be used as the ‘pilot operator’ to implement this concept of ‘Bank Management Company’.

This model of financial and Investment System will shift the paradigm of the whole Islamic Financial and Investment System worldwide InsyaAllah. With the success introduction of the above Financial Model we hope to achieve the following specific objectives and goal:

1. To promote a new financial culture among the Muslim ummah – from that of copying the western culture of ‘the borrowing society’ to that of a true Islamic culture of ‘the Lending society’.
2. To create a system that would ‘guarantee’ the ‘well being’ of every member of a ‘qariah’ (mosque’s members) using the mosque as the pillar of the system.
3. To accumulate and gather all resources and wealth belonging to the Muslim Ummah regardless the form to be benefited for the wellbeing of the whole ummah.
4. To assist in the economic development of the Muslim nations through a financial system that is promised to be efficient and viable using the Principle of Qardul Hassan as the pillar.
5. To bring back the glory and the excellence of Islam through the introduction and the projection of a true Islamic Financial and Investment System based on the ‘Third Sector’ – the Voluntary Sector as the pillar of the economy in the 21st Century.

**A visionary perspective of the SMEs financing solution using the Islamic banking’s approach**

In essence, the SMEs and the micro businesses accounted for the majority of business concern in Malaysia and they are growing at a very rapid rate. They require substantial funding to grow and develop to keep with the phase of the economic development. However currently they were not provided with the appropriate level of funding with the minimal level of average funding available for them as projected above.

The Islamic Banking worldwide had been introducing Islamic practices in banking as a way to create a permanent solution to the individuals and small businesses financing solution.

How would the Islamic Banking mechanism facilitate SMEs in obtaining their financing? A declining balance
investment scheme can be an idle financing instrument for the small and medium entrepreneurs. On the surface, the above Declining Balance Investment arrangement for the financial institutions would only increase the banks’ risk profile in financing the SMEs. However this will only depend on the circumstances and the environment in the system.

The whole system now shifted the attention towards profitability and viability of the projects financed. The decision in financing a business or project will be viability centric. This will be more efficient in promoting productivity increase in the economy. It will be seen to be fairer to the entrepreneurs who manage to structure viable venture or business opportunity rather than ‘a clean’ entrepreneurs – who are clean financially and has good collateral to offer but not necessary the most viable projects.

The issue then is assuming that we have good viable projects but the entrepreneurs that are going to start the businesses are not clean financially – because of the financial history and do not have sufficient collateral to offer in obtaining the financing facilities, how could we structure the financing?

Another principle in joint venture investment applied in the Islamic Banking practice is called the ‘Mudharabah’ (entrepreneurial profit sharing basis). Under this scheme, two parties – one as capital provider (shahibul mal) and the other as the entrepreneur (mudharib) will work jointly to run a business. They will agree on the basis of profit sharing – normally based on the different forms of contribution that they made into the business. The financial institutions provide the capital and the entrepreneurs provide the expertise and effort. The profit sharing basis varies according to the agreed arrangement between the two parties – ranging between 10:90 to 30:70 between the entrepreneurs and the capital providers.

Hence as long as the project run as expected according to the financial projection, both the financiers and the entrepreneurs will benefit from the joint venture business and the entrepreneurs will have the opportunity to buy back equity investment in the project held by the financiers. This will provide the mechanism for the financiers to recover back their investment over an agreed period, failing which the financiers can opt to sell the investment to someone else to recover back their investment.

How do we mitigate the risk of project or business failure? A scheme of Sinking Fund investment could be initiated – that is agreed by both parties. Under the scheme, the financier will actually release fund for a funding scheme equivalent to the double amount necessary to fund the business or project. One part will be disbursed to the project. The other half of the fund will be invested in a safe lucrative investment that will generate a respectable annual return. The return on the investment will be re-invested and accumulated for several years until the whole investment value and return becomes more than doubled to take care of the initial total capital investment into the project and the investment program.

If arrangement could be made with central bank for example to make the amount invested in the sinking fund investment above to form as part of the legal reserves requirement to the central bank, then the financing banks will not feel the strain from the financing arrangement and at the same time mitigate their risk profile in the financing activities.

Diagram 1: Illustrative version of the SMEs Islamic Financing scheme
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A visionary perspective of the Islamic Micro businesses financing  

There are many model of Micro-financing that we can study and use as reference in developing a Micro-financing model for SUDAN. The following are some example of the model successfully implemented around the world:

a. Grameen Bank  
Grameen Bank Project was born in the village of Jobra, Bangladesh, in 1976. In 1983 it was transformed into a formal bank under a special law passed for its creation. It is owned by the poor borrowers of the bank who are mostly women. It works exclusively for them. Borrowers of Grameen Bank at present own 95 per cent of the total equity of the bank. Remaining 5 per cent is owned by the government. The Bank does not require any collateral against its micro-loans. Since the bank does not wish to take any borrower to the court of law in case of non-repayment, it does not require the borrowers to sign any legal instrument. Although each borrower must belong to a five-member group, the group is not required to give any guarantee for a loan to its member. Repayment responsibility solely rests on the individual borrower, while the group and the centre oversee that everyone behaves in a responsible way and none gets into repayment problem. There is no form of joint liability, i.e. group members are not responsible to pay on behalf of a defaulting member.

Total number of borrowers is 7.53 million, 97 per cent of them are women. Grameen Bank has 2,517 branches. It works in 82,312 villages. Total staff is 24,489. Total amount of loan disbursed by Grameen Bank, since inception, is Tk 386.77 billion (US $ 7.12 billion). Out of this, Tk 346.85 billion (US $ 6.36 billion) has been repaid. Current amount of outstanding loans stands at TK 39.92 billion (US $ 582.19 million). During the past 12 months (from July’07 to June’08) Grameen Bank disbursed Tk. 55.62 billion (US $ 811.14 million). Monthly average loan disbursement over the past 12 month was Tk 4.64 billion (US $ 67.60 million).

b. Grameen Foundation  
"The Village Phone program in Uganda, the first of GF’s efforts to replicate the pay phone program outside Bangladesh, continued exceeding expectations in 2005. More than 3,500 microfinance clients have bought and now operate a Village Phone as "Village Phone operators." Besides the boost to operators’ incomes, the program is creating a national telecommunications network. Of Uganda's 56 districts, 53 now have at least one Village Phone operator. Often, Village Phone is the first local telephone that villagers have. Having a quick means to communicate has contributed to higher levels of productivity, savings, and safety for entire communities."

c. Amanah Ikhtiar in Malaysia  
The objective is to reduce the poverty rate in Malaysia by providing financing to poor household to enable them to undertake viable economic activity to upgrade their household income. Maximum tenure is 25 weeks to 6 months. Maximum financing is RM20,000. Eligibility criteria is Household income below the following Current Government Poverty line i.e for west Malaysia: RM661 per month (RM152 per capita), Sarawak state: RM765 per month (RM167 per capita) and Sabah state: RM888 per month (RM173 per capita). The participant to set up a group consisting of 5 members of the same gender, responsible and committed to the programme and members are not close relatives. The participant must attend compulsory short course. Upon passing the special test, the member is required to attend the weekly Central Meeting that comprised of 2 to 8 groups of AIM members. Purpose of financing Working capital. Eligible sector / Types of financing is all economic activities. AIM has gradually become a national programme for poverty alleviation and until December 2000 had 60 branches, with 66,130 clients.
It currently employs 820 staff. A new training and research facility called CMCTRD has been operating since 1998. An entrepreneurship development unit has also been functioning from 1996. Total loan disbursal until now amounts to 5.5 million Malaysian Ringgit. Four types of loan products have been developed. These are:

- **SPI 1** for loans up to M$ 1,000 - 4,900,
- **SPI 2** for loans up to M$ 5,000 - 9,900,
- **SPI 3** for loans up to M$ 10,000,
- **SPI 4** for loans up to M$ 20,000.

In addition, AIM has introduced a number of savings & insurance schemes. AIM had disbursed over RM2.6 billion in loans, benefiting over 180,000 rural poor. AIM managed to collect 97 per cent of the loans.

d. Al-Rahnu – pawn shop system in Malaysia

The Malaysian Islamic Economic Development Foundation (YPEIM) suggested Ar-Rahnu to be introduced. The first Ar-Rahnu shop was set up in 1992 by Kelantan state government, later entrusted a co-operative to manage and operate other branches. The first co-op to run Ar-Rahnu in Malaysia is the co-op bank or Bank Rakyat in October 1993 with the co-operation from YPEIM. In 2004, 22 co-operatives involved in the business with 125 centers throughout the country. Bank Rakyat owns 100 centers. Ar-Rahnu facilities is Gender Sensitivity: Gold jewelries are women’s asset. According to Islam, women have rights to their belongings. A lot of women involve in small scale businesses. Therefore, co-operatives offering the Ar-Rahnu scheme are sensitive to women’s need and welfare. Islamic Concepts Used are:

- **Benevolent Loan (Qardhul Hasan)** - It is a loan agreement between a lender and a borrower. The lender is forbidden to ask for extra payment but the borrower is encouraged to give a token of appreciation.
- **Trustworthiness (Wadiah Yad-Amanah)** - The borrower is required to produce a returnable collateral to ensure repayment of the loan. The borrower entrusted the lender to look after her belongings during the loan period. If something happens to the collateral item but not due to the lender’s negligence, the lender is not required to replace the item.
- **The fee for safekeeping (Al-Ujrah)** - The lender is allowed to charge a reasonable fee for keeping the pawned items safe and in good condition.
- **Safekeeping with guarantee (Wadiah Yadhomana)** - The lender will be responsible to replace the missing or stolen items to the owner if he/she fails to keep the agreement.

The purpose of the loans is to extend loans in a quicker manner to the society, by taking gold as collateral. The loan amount (depends on individual co-op) is up to RM5,000 per day and collectively up to RM25,000 maximum. Co-op with higher provision offers up to a maximum of RM50,000.

e. Kiva, first P2P microfinance system

Where the Internet is available even in poor rural areas. Lenders may loan money through kiva.org, which lists businesses in need of funding and provides background on the entrepreneur starting the enterprise. Individuals may makes loans in increments as small as $25, and can expect to receive repayment, without interest, at the end of the loan term, which typically runs between six and 12 months. Since Kiva’s source of capital is charitably-minded individuals, it is able to provide more flexible loan terms than traditional financial institutions.

f. Namaste Direct

This is one of the most direct person-to-person micro-lending programs. When you give to Namaste Direct, you are informed of the person who receives your loan, how they used the money, and their
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progress. ND can also arrange a visit to the lendee -- this will turn your loan into a life-changing experience for you as well. But because of this directness the giving area is limited -- currently to Mexico and Guatemala. No minimum contribution.

g. FINCA Village Banking

FINCA makes loans directly to the poorest villages. They aim their lending to 10-50 neighbors who come together to form a village banking group, and who in turn decide who should get what and how much. FINCA specializes in small loan amounts ($50-$500) for the very poorest. The minimum contribution to their program is $50. While a few hundred dollars is powerful, with only $5,000 you can start a whole village bank for micro-loans, thereby compounding the power of micro-finance to an entire small community.

h. Unitus

Minimum contribution, $100. They accept PayPal. This program really easy to contribute to. Unitus, like Accion below, funds other local micro-finance programs, rather than direct loans to individuals. "Unitus seeks to identify highest-potential emerging MFIs (Micro-Finance Institutions) and help them to achieve exponential growth."

i. Accion

As an umbrella institution providing technical assistant to local micro-lending institutions with minimum contribution of $50, ACCION is leading the effort to make micro-lending financially self-sustaining. Micro-lending programs have the potential to cover their own costs. The interest each borrower pays helps to finance the cost of lending to another. In most poverty alleviation efforts, every person helped brings the program closer to its financial limits. Successful micro-lending programs, on the other hand, generate more resources with each individual they help. As a result, well-managed micro-lending programs generate more income than they spend. Once they become economically viable financial institutions, they have the ability to access a virtually unlimited source of lending capital - the billions of dollars invested in the world's financial markets.

j. Allianz micro-financing project

Allianz has launched three microfinance projects worth 330,000 Euro to assist in rebuilding microfinance institutions in Aceh. All three projects are being implemented together with German Technical Cooperation (GTZ), a German governmental organization with more than 10 years of experience in developing the microfinance sector in Indonesia.

k. Banks for the Poor in the Arab Region

The Grameen Foundation collaborates with the Abdul Latif Jameel Group, one of the leading private business groups in Saudi Arabia, to fulfil a goal of expanding microfinance opportunities in the Middle East and North Africa and reaching one million new borrowers by 2011. The Grameen-Jameel initiative provides assistance to other MFIs through capacity building, direct financing, loan guarantees, technical support, translation of microfinance manuals and publications into Arabic, and has sponsored many practitioners to receive training on best practices exhibited through the Grameen Bank example. The Foundation has also partnered with Sanabel, the microfinance network for the Middle East and North Africa, and CGAP, a multidonor consortium housed at the World Bank, to help launch the ‘Arabic Microfinance gateway’ and spread information on microfinance best practices among regional practitioners.

l. FINCA Country Programs

With wholly-owned subsidiaries in Africa, Eurasia, Latin America, and the Greater Middle East serving over 700,000 clients, FINCA's geographic reach is among the widest of the leading microfinance networks. FINCA's birthplace was in Latin
America, and that region remains the largest in terms of clients served. But the programs in Africa, Eurasia and the Greater Middle East are growing rapidly, evidence that microfinance works in very different markets and cultures.

m. FINO India

FINO designs and implements innovative technology solutions which enable financial service providers to reach the unbanked population of India. The FINO Microfinance Solution is based on BGS’ DUET multi-purpose technology platform. Projected customers until 2012: 25 million.

Objective of the program

The objective is to improve the performance and efficiency of microfinance institutions worldwide, so they could offer financial services in under-supplied areas to population groups with low incomes. These services must be adjusted to meet the needs of potential customers and there is a demand for them.

Approach

The approach is to increase professional know-how in the microfinance field, the project promotes the capability to develop and apply new products and services. Advisory measures will be used to improve the efficiency and sustainability of institutional work. The project is to works with both the state institution and private microfinance and sectoral institutions. The programme is to supports the training institute which has been offering an advanced course of study in microfinance since 2003.

Elements of Micro-financing model

a. Islamic Financing model

- The Islamic Concepts to be used are:
  - Benevolent Loan (Qardhul Hasan)
    - It is a loan agreement between a lender and a borrower. The lender is forbidden to ask for extra payment but the borrower is encouraged to give a token of appreciation.
  - Trustworthiness (Wadiah Yad-Amanah) - The borrower is required to produce a returnable collateral to ensure repayment of the loan. The borrower entrusted the lender to look after her belongings during the loan period. If something happens to the collateral item but not due to the lender’s negligence, the lender is not required to replace the item.
  - The fee for safekeeping (Al-Ujrah) - The lender is allowed to charge a reasonable fee for keeping the pawned items safe and in good condition.
  - Safekeeping with guarantee (Wadiah Yadhomanah) - The lender will be responsible to replace the missing or stolen items to the owner if he/she fails to keep the agreement.

b. Fund accumulation and consolidating mechanism

An Ummah’s owned institution will be set up in the form of a Bank or a Trust institution to create a Fund Accumulation mechanism and centre – Using the concept of Qardul Hassanan (Benevolent loan) as mentioned in the Qur’an 8 times in seven surrah as challenges to all ummah to lend to Allah – A promotional program will be launched nationwide to invite individuals and corporate body in all ASEAN nations to lend their excess fund into the institution to answer to the call of Allah Subhanawata’ala as above. The fund will be managed by the institutions and will be refunded in installment over a medium term period. The fund will be managed by a team of professional bankers who will manage the lending to the needy groups.

c. The lending institution

The lending institution will be created in the form of a few lending institutions for specific program such as – agricultural loans, rural business loans,
urban’s business loan and other micro-financing mechanism.

The possible lending institutions will be:
- Micro-finance Bank
- Al-Rahnu institutions
- Micro-projects institutions

d. Lending mechanism

All lending will be made based on Qardul Hassanan – Benevolent loan – whereby the borrower will not be asked to pay extra as cost of fund borrowed.

However, borrower may contribute to the administrative costs of managing their borrowing. Lending will be made through the above institutions under several forms as follows:
- Qardul Hassan Loan
- Al-Rahnu facilities
- Al-Ijarah facilities
- Bai-Al-Inah facilities

e. No Collateral and self payment system

Borrower will not be asked to provide any collateral for the loans that they took from the institutions above. Instead, the institution will create its own collateralization mechanism as follows:

Using the concept of SINKING FUND PROGRAM, every loan given out will be matched by an investment program in a sound profitable investment project that will generate about 10% return per annum. At that, rate the invested fund will doubled within 8 years. This means, the principle sum borrowed will be self-paid by the investment scheme.

This leave the cost of administering the borrowing and the investment that need to be covered. This will be covered from the individual contribution of the participants during the borrowing period. If borrowing is made only on viable projects, the administrators can be assured that the borrower will be able to afford to pay the administrative fee on an annual basis during the period of borrowings.

f. The fee charging mechanism

The fee charged to the borrowers will be quite minimal, just sufficient to cover the total administrative charge of the whole institutions. In the case where the return from the invested fund is greater than expected, the administrative fees could be exempt on the borrowers.

g. The borrowers monitoring mechanism

Though the borrower will not have to re-pay their loan, they must be closely monitored and guided spiritually – to enhance their Iman and Taqwa and to ensure that they will be out of the poor trap zone soon.

h. The performance measure program

An independent institution must be created to perform a continuous performance mechanism on all the relevant institution – the fund accumulation, the lending institution, the borrowers, the administrators etc. The institution will report direct to the government on a monthly basis.

i. The training institution

A training institution will be created specifically to train skilled personnel in all area of micro-financing institutions including – fund accumulation, lending mechanism, borrowers care, monitoring and performance measurement.

Mechanism of implementation

The creation of the above Micro-Financing program must be planned well in order to make sure that it will be smooth running and will not meet any unnecessary problem and stumbling blocks along the way.

The basic process of implementation should include the following steps:

a. Setting up of a Steering committee to monitor the implementation process.
b. Setting up various teams to implement the various component of the system:
   - The Qardul Hassan institution – Fund accumulation institution
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The Lending institution:
- Micro-finance bank
- Al-Rahnu institution
- Al-Ijarah institution

The Investment institution
- The loan monitoring institution
- The borrowers care institution
- The training institution

c. Setting up borrowers monitoring system – the performance measure institution
d. Setting up the implementation program coordinator and monitoring unit

The Implementation team

The implementation team will be set up comprising of the consultants and the local experts and implementers that will work together in designing the specific program of:
- Fund accumulation
- Lending mechanism
- Borrowers care mechanism
- Program monitoring
- Performance evaluation

METHOD

In this research, The writer use two methodologies is thought library research covering and taking the data and qualitative data analysis.

RESULT

Micro-financing institution will play a very crucial and important roles in developing the ASEAN economy. The main objective should be to alleviate poverty and the bring a large group of the citizen out from the poverty trap. At the same time, it will groom the same group of citizen to be the important Small and Medium Scale entrepreneurial group in the near future. They will form a large part of the economic players to drive the rapid economic development nationwide.

The mechanism of creating the micro-financing system must be based on the premise of self fund generating to ensure the long term success and impact to the whole economy.

Just as for the SMEs, we could create a special financing scheme for the micro businesses in Malaysia using a special system and mechanism applying the Islamic banking practices.

Unlike the SMEs financing that are more commercial in nature, the Micro business financing will need to be regarded as a social banking mechanism. In Islam, there is a concept of ‘Benevolent Loans’ (Qardhul Hassan) which enable people in need to borrow at benevolent terms. At benevolent terms basically borrower will not have to pay for any charges including financing charges for the loans. The objective is to relief the borrowers from the hardships in life so they could up-lift their living condition financially. This does not prevent them from donating some extra money when they return their borrowing to the financial institutions as gifts to show gratitude when their business prosper subsequently.

The issue is how do we generate the ‘free fund’ to finance the micro businesses also at ‘free of charge’? The challenge is to accumulate the excess fund belonging to individuals and corporate citizens in an economy. We could create a social bank – call it a Benevolent Bank or in Islam it is called ‘Qardhul Hassan Bank’. The bank will invite anyone to lend their money to the bank. This is simply by depositing their money in the Benevolent account which works exactly like the ‘Current Account’ or saving account of the normal conventional bank. Depositors will deposit their money into the account without expecting any return except for the good deed that they can expect – in the form of huge rewards that has been promised by Allah S.W.T in the day-after (in the next world). At the same time they can always withdraw their saving at any time they like using their cheques or ATM cards.

However, statistical records in banking showed that only about 30% of bank deposits will ever be circulated by the owners. The rest will rest ‘solid’ in the accounts. Hence it is this balance of ‘solid’
amount that will be used to help finance the Micro Businesses under a benevolent basis. The social bank may have to invest 10 – 15\% of the fund themselves to generate sufficient return to pay for their operating overheads. As a social bank, it will not strive for any profit other than the objective to improve the well being of the citizen and the Ummah.

What we have here is a double ‘benevolent’ scheme being practiced – one at the fund accumulation’s stage relying on all individuals and corporate citizen in the society, the other is at the social bank’s stage where the bank provides financing facilities at benevolent terms also. This will be a perfect system of complement between the ‘have and the have-not’ in a society.

How could the bank protect themselves from the possible bad debts? The same sinking fund program could be created at the bank’s level where, the bank will only lend 50\% of their lending capacity (i.e. 50\% of the 60\% of funds available). The other 50\% will be invested in the attractive safe investments in the economy. This could be done through the national guaranteed investment scheme – such as the National Equity Investment Institution in Malaysia.

In actual fact, the social bank would grow in the long term when they are able to collect back the financing that they provide to the Micro-businesses community and at the same time made money from their investment in the national investment program.

A mechanism must be created to closely monitor each of the micro-businesses that the bank’s finance not only to make sure that they recover their investment (financing) but also to make sure that the micro businesses run well and grow to become substantial SMEs in the near future. A system of installment collection on a daily or weekly basis will normally make the attitude of the borrower more stern.

**Diagram 2: Illustrative version of the Micro Businesses financing**

- What then is the role of Credit Information and the Credit bureau in this new Islamic Banking environment?.

The credit reference and credit bureau services will act as the second opinion expert in the financing decision mechanism but their information will not become the main decision basis. The SME Credit Bureau could shift their attention to rate project viability and profitability rather than credit risk. This will make their services more meaningful and create a new level playing field in the SMEs and Micro businesses financing arena.

**Promoting the new culture of ‘GIVING LOANS’ rather than ‘TAKING LOAN’**

The western civilisation had imposed upon us the habit of borrowing as a way of life. We borrow in practically every aspect of our life – from marriage, education, buying houses, cars, household equipments etc. There is a need for a more refined culture of ‘giving away loans’ rather than ‘obtaining loan’. The western civilisation had promoted all sort of means to borrow from credit card, fixed loan, overdraft to installment payment in our daily life.

Even in business, we were thought that ‘other peoples’ money’ (OPM) as the rule of thumb in business strategy. During recession, all the above strategies had been proven wrong. Borrowing is the biggest enemy in business and in life.
What is very important to realise is that, the culture of ‘lending’ can be practised without having to wait for us to have some excess fund in hand. We could introduce the concept of ‘lending temporarily’ using our saving – while waiting for the time when the fund will be needed for our personal use some times in the future.

This is also related to the role entrusted upon us as the trustee to all Allah’s wealth which include cash and other wealth in our possession. These fund must not be left idle – not even a second. Individual Muslim in Malaysia for example has more than RM 20.0 billion in the current account of conventional bank. (If we take into account the cash balances of muslim’s control companies, the total balance could easily reach RM 50.0 billion).

The interesting fact is that each accounts holder has only a minimal balance of between RM1,000 - RM2,000, hence they were left unattended. Instead, the banking system had been exploiting them by using these fund to give away loans to their clients. Only about 30% of these fund had been utilised by the owners for daily need. The balance had stayed ‘solid’ and has been idle for decade.

Creating a method to ‘provide loan’ to Allah S.W.T.

In principle, we need to answer the call to ‘lend’ to Allah S.W.T. just as we promptly answered to the call for prayers (Azan) as a way to ‘succeed’ all the time. Actually all of us will not mind ‘lending’ our ‘fund’ as long as we will be able to get it back whenever we need them. We could create a lending mechanism which operate just like a banking system which allow us to ‘withdraw’ our ‘loan’ to Allah S.W.T. by using cheque and ATM cards.

The question is what should be the proper institutions used in the mechanism? The most credible institution is a bank – which could be called as ‘The Qardul Hassan Bank’. The bank should be publicly owned with a social objective as its mains mission. The bank should be runned by public trustees who will act as the trustee to the ‘lenders’ and act as professional fund managers.

Cooperative Societies can also take the responsibility to gather the fund through a ‘lending program’. With members of more than 4.3 million in Malaysia, Cooperative societies will have a big potential in gathering fund from their members in the form ‘benevolent loan’. Cooperative Societies in Malaysia are currently allowed to collect deposit from their members. Cooperative Societies could work together with Cooperative Banks to perform task as a bank – to keep and manage deposit in the form of ‘benevolent loans’.

Funding small and micro businesses in Malaysia

‘Musyarakah mutanaqisah’ (Declining Investments scheme) as a mechanism to utilise Qardul Hassan Fund. In Halifax, Canada, a Muslim communities of more than 200 families had created a ‘Musyarakah Mutanaqisah’ scheme as a way to acquire home for each of them. When there is a family who intend to purchase their home, a fund will quickly be created based on this benevolent loans concept. Each family may contribute from their saving say C$1,000 which could immediately accumulate C$ 200,000 - sufficient to pay for purchase of the house in cash.

The occupant as the potential owner will also contribute a small portion as his/her investment in the house. He/she will pay rent at market rate and the rental income will be distributed to all capital contributor proportionally (including the occupant themselves). His/her portion will be used to buy back investment of others in his/her house. The potential owner will buy back other investor’s capital in installment whenever he/she has extra fund until the house is fully owned by him/her. To pay rental at 10% per annum of Net Annual Value is considered reasonable.

A simulation showed that at that rate, the occupant should be able to own the whole house after 15 years. At the same
time the investor will also make 10% per annum on their investment.

Why did Allah S.W.T. who own everything in this world challenge us to ‘lend’ to Him? Who are we to ‘lend’ to our creator? Mind you, we don’t even own the wealth that is supposed to be lend to Him. It is all His. Did’nt that make us wonder about the ‘call’ which were made five times in the whole Al-Qur’an. We need to answer the call not because we pity Him but because we felt humiliated by the call. It sounded like a ‘win-win’ partnership.

**Qardul hassan Unit Trust as a mean of setting up a Muslim Development Fund**

There is a strong interest in the Islamic Education system today. We need to set up many Islamic Institutions to cater for the demand. It need a huge development fund as education is a high investment project and long term in nature. The strong interest among the Muslim parents created a commitment in them to invest in the Islamic Education System.

Qardul Hassan Unit Trust can be structured the same way as the conventional unit trust currently available in the market. It could also be modified into a property Unit Trust. To make it more attractive, it could be structured as an ‘open unit trust’. The unit trust will be launched with shares to be sold to interested investors – in this case will be parents who supported Islamic education system.

The main difference is in the investment objective. All investment collected will be utilised to develop the Islamic Education Institution as targeted. The concept of Qardul hassan Unit Trust is similar to a Zero Coupon Bond. No return will be promised to the investors. Instead investors will buy the unit trust as a ‘loan’ – a form of contribution to the Islamic Education Institution projects. The unit trust shares can never the less be traded in the bourse as an ‘Open Unit Trust’ – just like a holding company shares. Shares will be traded between investors who have similar objective of ‘lending’ as a way to contribute.

Investors will keep the shares as long as they do not need the fund for their own daily need. When they are in dire need of their fund, they will offer their shares to other investors who have extra financial capacity. The shares could also be given as inheritance to their children. It could also be donated to charitable institutions as it carry a store of value that can be converted into cash.

If Qardul Hassan Unit Trust could be implemented in all of the Muslim World, it will definitely create a big impact on the Muslim Financial standing. It will create a very effective means of accumulating the idle financial capacity and hence intergrate Muslims investment worldwide. The mechanism can be implemented anywhere – even in the non-muslim nations. The ultimate objective is to bring back the ‘Bayt-al Mal’ institution to its peak moment during – Khalifah Harun Al-Rashid.

**The implementation of Qardul Hassan Unit Trust Scheme**

This unit trust scheme will be launched as a stimulant towards the establishment of Muslim development projects. It will be projected as a ‘Fardu Kifayah’ effort – a social obligation to ensure that the Muslims wellbeing are being taken care off by the muslim society at large. It will be a ‘community obligation’ approach – in marketing them to the public.

Qardul hassan will be projected as a concept of ‘giving temporary loans’ utilising the idle fund available in our hand and ensuring that it will be taken over by other responsible Muslims when the need arises for us to withdraw the loans to meet our own financial need. It is a shared responsibility. It is a way to manage Allah’s wealth entrusted upon us.

If each of the Muslim controlled listed companies in the KLSE are willing to ‘lend’ say RM 5.0 million in answering to the ‘Qardul Hassan’s call, we could easily accumulated RM 1.0 billion fund to be mobilised to help the muslim communities in Malaysia. Bear in mind that this is not a
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Gift or contribution. This is a loan and hence it will still remain in the Balance Sheet of these companies as assets as long as it is there.

Think of its impact on the ‘Baraqah’ that the company will receive out of it and the reputation it will get for being responsible corporate citizen. The Qardul Hassan Unit Trust mechanism could be a very powerful tool to integrate Muslim Financial capacity worldwide.

It could be used in generating fund to finance Muslim social projects such as creating Islamic Financial Institution, education loans, Low Cost Housing Loans, Micro Credit facilities for Muslim Small businesses, Muslim agriculture projects financing etc.

Qardul hassan Properties Bank to solve the ‘unproductive lands’ problems in the muslim’s nations.

Lands are very valuable wealth entrusted upon us in this world. It is resources that could be exploited and capitalised to generate bigger wealth and financial capacity. The ‘Business Cycle’ begin after the property market peak and end when the property market collapse. Property market are normally the one financial capacity that will be left ‘idle’ during business recession for its less attractive nature.

- During recession properties owner will lay back and postpone their intention to develop the land or utilise the land for agriculture projects.
- In the development phase where a country is transforming into an industrialised or developed nations, we will observe that the agriculture sectors especially the small scale agricultural projects will be left abandoned. Most youngsters will migrate into urban areas to chase ‘better opportunities’ leaving their farms idle thinking that it may be less productive than the industrial sectors.

This is beside all the ‘waqaf’ land who had been assigned to the Bayt-al Mal institutions. Most of these land stayed idle because the Bayt-al Mal has not got the expertist to manage them productively. There are also many muslims who acquire lands and properties for ‘keep’ without expecting much return in the short term. They are planning to utilise them when they retire or they plan to pass these land and properties as inheritance to their childrens. Whatever forms and reason for it, the fact remained that we Muslim ummahs all over the world has a large stock of land banks and properties that has been left ‘idle’ for years. The question is how could we benefit from all these properties belonging to the Muslim ummah without exhausting them instead attempting to preserve or enhance their value for the owner.

The concept of wealth ownership in Islam

All wealth regardless of its nature – be it cash, lands, other properties, intellectual properties, stocks, investment etc that we ‘hold’ actually belongs to Allah S.W.T. As human being, we are just the ‘trustee’ to these wealth and our role is to manage them most effectively. If we fail to manage these wealth that has been entrusted upon us, we will be accounted as ‘irresponsible trustee’. Most important – wealth must not be left idle. We must emphasise that a person could actually entrust ‘their wealth’ to professional wealth managers to discharge the responsibility entrusted upon us to manage ‘our wealth’.

We need to emphasise also that when we entrust these wealth to the professional wealth managers, we are not ‘giving away’ the wealth. We are just lending them while ‘we are too busy’ doing other things. We will take back the control when we are more prepared and ready to manage them ourselves.

The concept of Qardul Hassan in wealth management

- The philosophy is to ‘ascertain that all Allah’s wealth in this world must
be managed professionally and efficiently to discharge our muslim community’s shared responsibility’.

- Hence - creating a ‘mean’ – either in the form of institutions, mechanism or mode to ensure that all muslim wealth are properly managed become a shared responsibility – a Fardu Kifayah to all Muslim.

- We muslims had been fooled into adapting the western culture of ‘borrowing’ as a way of life. This is contrary to the Muslim culture of ‘lending’ away as a way of life – i.e. to lend to others.

- This culture has been imposed upon us by the Jewish society whose life mission has been to ‘rent their capital’ as a way of life. Hence riba’ has been the Jewish way of life.

  We need to create a public institutions to accept wealth as a form of Qardul Hassan from Muslim worldwide. This institutions must be global in nature and present physically worldwide. The institutions must be managed by professional fund managers who act as trustee and Da’ie and manage the fund in the most efficient and effective ways. The objective of these institutions are to accept any form of wealth as a form of Qardul Hassan – (benovelt loans) to be managed and benefited for the whole ummah. This institutions may exist in the form of readily existed organisations – such as the Khazanah Nasional, Permodalan Nasional Berhad or The Amanah Malaysia Berhad.

  The wealth to be lend should be as exhaustive as possible to include cash, gold, jewellaries, antiques, land, houses, buildings, factories, equipments, motor vehicles etc that have substantial value and useful life. We can start with lands and other properties as the first phase of the program.

  - Land is one of the most important wealth in an economy and this includes the Islamic Economy.

  - If we could ensure that every inch of land owned by the Muslim are being utilised fully, it will InsyaAllah help to ensure the rapid development of the Muslim ummah in Malaysia and worldwide.

- Overall, lands as an economic resources has a high potential productivity rate – and hence would create big impact on the Muslim economic wellbeing when utilised fully.

A scheme for a long term lease of lands belonging to the ummah

  The basic principle in the scheme is for a muslim land owners to ‘lend’ their land over a substantial period say between 5 – 30 years to a Qardul Hassan Institution to be managed and make use of while waiting for the land value to appreciate over time. The period of ‘lending’ must be substantial so as to justify an economic project to be carried out by the managers to create substantial value added for the owner and the ummah at large.

  The land will then be utilised by the managers themselves or by a third party with sufficient capital and expertist appointed by the managers during the ‘lease period’. The managers may construct housing complex on a land nearby an industrial area, say 2,000 – 3,000 houses to be let out to factory workers during the lease period.

  Let say a house is being rented at RM300 permonth – for a period of 30 years, a total of RM 108,000 would be collected. This would cover the capital cost, maintenance cost and leave substantial amount to be distributed between the wealth managers and the owner. For the 3,000 houses erected and leased out, a total of RM 300 million would have been generated.

  The land owner will get back the land including all the buildings – houses and amenities on it at the end of the lease period. This will enhance the value of the land. Large agricultural projects such as Modern Farming could be started on a consolidated unutilised lands belonging to many small landowners. It will make it very productive because of the large scale operation. Short term cropping such as
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Tapioca, corn, fruits and vegetables and also chicken, ducks, birds or even goats farming could also be identified as the potential projects.

**Gold dinar and the Qardul Hassan scheme**

Gold has been well known as a ‘stable value assets’. Hence it has been used as a hedging mechanism. In Islam Gold had also be the choice of ‘assets’ or more specific a ‘metal’ to be used as currency hence we have ‘the gold dinar’. The crucial point here is that everyone will feel comfortable holding ‘gold’ rather than cash as it is more stable as ‘a store of value’.

**Hedging mechanism for Muslim wealth using Qardul Hassan scheme**

Gold as a ‘store of value’ can be converted into ‘Dinar Coins’ and hence be used as a hedging mechanism for the ummah to keep instead of cash, saving or current accounts balance in the banking system. We could utilise ‘Gold Dinar’ as a ‘hedging mechanism’ and combine it with the ‘Qardul Hassan mechanism’ by inviting general public especially the Muslim ummah to subscribe to our Gold Dinar.

**Gold Dinar and Qardul Hassan mechanism**

Instead of keeping physical gold in hand, we could introduce the concept of E-Dinar i.e. ‘Virtual Gold Dinar’ kept and managed by a group of Professional trustee and Fund Managers. The trustee and fund managers will ensure that the gold value is being preserve.

**E-Dinar and Qardul Hassan**

- General public will then subscribe to the E-Gold and pledge that they will keep the gold for a specific period parallel to the option period above.
- The trustee will keep some fund ready to exercise the option at or before their maturity.
- The rest of the fund will be utilised in exactly the same way The Qardul Hassan Fund were supposed to be spent.

**Qardul Hassan scheme and the E-Dinar**

- The E-Dinar mechanism allow The Qardul Hassan institutions to integrate and utilise Muslim’s fund for development objectives while at the same time hedge the Muslim wealth against inflation by converting their wealth into Gold Dinar.
- The crucial question then is how can we guarantee that the Qardul Hassan institutions will have the required fund to exercise the Gold option on time ?. This is a cashflow and Cashtiming management which could be sorted by carefully planning the cash flow timing between the cash collection from depositors, cash spent on Muslim wellbeing, cash collected from the muslim wellbeing projects and the exercise of options.

**DISCUSSION**

Qardul Hassan Institutions could be an important institutions to act as the clearing house for Muslim ummah to discharge their obligation to manage Allah’s wealth entrusted upon them. It will provide an efficient mechanism to integrate Muslim wealth worldwide with the aims to develop Muslim ummah wellbeing worldwide. All form of wealth including intellectual properties can be the subject for ‘lending’ – as long as they could be benefitted or utilise to generate value added for the ummah.
Muslim fund managers must creatively create mechanism to accumulate and integrate Muslim Wealth worldwide and to utilise these wealth in the most productive ways to benefit all Muslim ummah worldwide including the ‘wealth owners’. The ‘Gold Dinar’ and ‘E-Dinar’ system is just an example where a financial package could be created based on the concept to make Qardul Hassan scheme attractive and timely.

Qardhul Hassan principle can be a very important system in the Islamic economic model. It can be applied in every aspect of life. In the advanced stage, even potential expertist and services of individual Muslim could be Qardhul Hassan… simply by committing to voluntarily contribute services or work with the institutions that help the ummah.

Most ASEAN countries has established their Islamic Banking and Finance sector as complement to their conventional banking system as a way of responding to the surge in the Islamic Banking development worldwide. To apply the principle of Qardhul Hassan in the banking system, is simply to create new parallel institutions to these private and commercial Islamic banks that will project the not for profit objectives. These institutions can be called as the Social Islamic banking vehicles with objectives to consolidates the Muslim’s wealth and use them to help the poor and the needy peoples worldwide.

Appendix – the source of the principle

The concept of investment in Islam is very broad stretching it’s boundary beyond this world affair into the ‘here-after’. Other than ‘Jariah’ contribution, Allah S.W.T. also call upon us to ‘lend’ in the name of Allah – a benevolent loans. This is being highlighted in the Al-Qur’an when it was mentioned five times – along side with the call for prayers and Fasting (syiam).

- **Surah Al-Baqarah, verse 245**, the meaning of which:
  “Who is it that will lend unto Allah a goodly loan, so that He may give it increase manifold?. Allah straiteneth and enlargeth , Unto Him ye will return”.

This sounded like an open invitation to ‘lend’ with a promise of multiple return. Allah also remind us that it was Him that will reduce or broaden ‘rizk’.

- **Part of Surah Al-Maidah, verse 12** the meaning of which:
  “ ….and lend unto Allah a kindly loan, surely I shall remit your sins, and surely I shall bring you into gardens underneath which rivers flow”.

Allah promised forgiveness from all our past sins if we lend to Him a benevolent loan beside all the attractive return in paradise.

- **Surah Al-Hadid, verse 11**, the meaning of which :
  “Who is he that will lend unto Allah a godly loan, that He may double it for him and his may be a rich reward ?”

Allah had emphasised the reward from benevolent loan will be doubled of the loan given out.

- **Surah At-Toghaabun, verse 17** :
  “If you lend unto Allah agoodly loan, He will double it for you and will forgive you, for Allah is responsive, Clement.”

This a form of persuasion to encourage us into giving benevolent loans to Allah S.W.T.

- **Part of Surah Al-Muzzammil, verse 20**, the meaning of which :
“… and establish worship, and pay the poor and (so) lend unto Allah a goodly loan what so ever good ye send before your souls, ye will surely find it with Allah’s better and greater in the recompense“

The verse emphasised the importance of giving benevolent loans: as it is equate them to the Jihad effort of a devoted Muslim.

Qardul Hasanan (benevolent loan) is more easily interpreted as spending our good wealth for welfare objective. “Benevolent” can be interpreted as ‘pure intent’ and is related to the concept of ‘trusteeship’ (amana) or stewardship of Allah’s wealth in this world. To ‘give loan’ should be seen as more responsible than giving ‘sadaqah’ as beside letting others to make use of the assets that have been entrusted upon us temporarily, we are making an attempt to account them properly.

It makes us acted as the trustee who lend to others instead of an owner who gives away or transfer the responsibility to others.

- **Hadith of Prophet Muhammad S.A.W. related by Anas bin Al-Malik R.A.**

  “During my journey in ‘Israq’ I saw a written rule on the door of Paradise that the reward of Sadaqah is 10 times and the reward of lending (or giving loan) is 18 times. I asked Jibrail why giving loan get a higher reward that giving sadaqah (donation) ? .

  Jibrail answered: a person who asked for donation will ask even if they already have them and a person will not borrow except when they are in dire need “.

Fadhilat of lending

- **Related by Ibn Mas’ud r.a. (confirmed by Ibn Hibban):**

  “Nabi Muhammad S.A.W. had said that: anything that is lent out by a Muslim to another (is given a reward) double of that giving sadaqah”.

- **Related by Ibnu Umar r.a. :**

  “Verily, the reward for a sadaqah is recorder only at the time of giving while the reward for ‘al-qard’ is recorded all the time while it is still in the hand of the borrowers”

- **Related by Ibn Kathir – amal sahabi :**

  “… Whosoever help a brother in hardship or reduce the hardship, will be placed under the shade of Allah S.W.T.”

**Fadhilat of lending**

Ibnu Hajar Haitami explained the two seemed contradicted hadiths:

If we know the position and the dire need of the faqir, then sadaqah is more afdhal than al-qard. If we do not know the fakir’s ‘hajat’ and requirement which created doubt and at the same time there is another request for a loans, then al-qard is considered preferable.

**The terms ‘al-qard’ in Islam**

- Al-Qard al-Hassan had not been elaborated by the Ulama’.
- Al-Qard has been broadly viewed as a method or system that is free from Riba’ and interest.
- Ulama’ Shafie: “al-qard is giving away the ownership of a ‘thing’ with a promise to return them back at the original form”
- Ulama’ Hambal:”al-qard is giving away something of valuable (al-mal) to another person who will benefit from it and return it in the similar form”
- Ulama’ Hanafi: “al-qard as assets that is given away from ‘mitli’ (similar assets) to be used with specific aqad and will be returned in the form that is was given away”
- Ulama’ Maliki: “al-qard as giving away a valuable thing without ‘an exchange’ except by giving ‘time’ without any additional payment but
created a liability to the borrower to pay back”

CONCLUSION

The different interpretation

Ulama’ Hanafi dictates that the assets lend out must be of ‘mithli’ type – ‘of similar in nature’ when returned. Ulama’ Maliki dictates that the ‘period’ of lending be specified in the contract.

In general all ulama’ accepted that:

“al-qard is an act of giving away part of one’s assets to a borrower who will return the specific assets or a similar one back to the lender some time in future”.

Al-Qard Al-Hassan Defined

- ‘al-Hassan’ were used together with al-qard to ‘convince’ and ‘strengthen’ the fact that in Islamic Muamalah ‘every loan must not be exploitative and burdensome’ – hence free from riba’ and exploitation.

- Imam Al-Qurtubi interprete the word ‘al-qard al-hassan’ in verse 245 of Al-Baqarah to mean the same as ‘al-qard’ in Islam.

- Umar Chapra defined ‘al-qard al-hassan’ as ‘a loan that must be paid back without interest or reward from the business profit or loss’

- Nazin Hammad defined al-qard al-hassan as “giving away valuables to another who use it and promise will pay back”

- Hisham Abdul Kadir defined al-qard al-hassan as ‘a loan given to finance works or projects without any interest’

Our conclusion:

- “Al-qard al-hassan’ is a loan of valuable assets that must be returned without any interest either in the form of ‘mithli’ or ‘qimy’”.

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