

Interest-Free Microfinance to Micro Entrepreneurs in Rural Bangladesh

(A study based on an 'Institutional-Network Approach')

By

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Abstract

The study is based on the socio-cultural context of Bangladesh. With a population of over 150 million, Bangladesh provides a large consumer market for potential enterprises. It does, moreover, hold one of the lowest wage structures in the world. The economic growth in Bangladesh lies primarily in its agro-processing industries, but besides agriculture, the rural-based micro enterprises is a potentially lucrative field of investment. Like many developing and least developed nations the rural-based micro enterprises (MEs) in Bangladesh contribute greatly towards economic development by generating employment opportunities and mobilizing rural savings towards productive sectors. In spite of its major contributions, the rural-based entrepreneurs suffer from lack in working capital, institutional credit facilities and poor management. Due to the shortage of capital they are compelled to borrow funds from local moneylenders and other privately run NGOs at a high rate of interest. This practice brings endless miseries to the rural-based entrepreneurs.

In recent years interest-free banks in different developing nations are rendering microfinance to the rural based micro entrepreneurs. It is a commonly asked question by many in modern days, whether an interest-free lending is possible or not by a financial institution, while lending funds to its customers. Based on an "Institutional Network" theoretical framework, the paper highlights and demonstrates different issues as to how and to what extent an interest-free bank operates its financial activities in the modern money market and lends interest free loans to the rural-based micro entrepreneurs in a developing nation like Bangladesh. The paper discusses the results of empirical findings relating to interest-free micro-credit' by Islamic Banks through the 'Cost plus sales under deferred payment (CPSDP); one of the leading Islamic Banking financing modes. It also demonstrates interest free microfinance by Islamic banks to the rural-based MEs contributes in developing network relationships between the lenders and borrowers and other related economic actors in a society. The discussions in the article are mainly concerned with the empirical review of the impacts and influences of 'Interest-free microfinance' on the rural-based small entrepreneurs in the Bangladesh.

*The study is mainly based on an Institutional Network Approach (Whitley, 1992a, 1992b, Janssen 2000, Alma 2002). A **qualitative** nature of research methodology (Jick 1979, Merriam 1998, Sherman and Webb 1988, Patton 1985) is used in the study. An exploratory '**case study**' (Yin 1994) method is used while collecting data from the field. e.*

INTRODUCTION

With a population of over 150¹ million (The World Fact Book 2009), Bangladesh provides a large consumer market for potential industries. It does, moreover, hold one of the lowest wage structures in the world. The comparative advantage of Bangladesh lies primarily in its agro-processing industries, but besides agriculture, the rural-based micro enterprise (MEs) sector in Bangladesh is a potentially lucrative field of investment (IPPF, 2001). In spite of its major contributions towards economic development, the rural-based micro entrepreneurs in Bangladesh suffer from lack in working capital, institutional credit facilities and poor management. There are many formal and informal financing organizations that are functioning in the money market of Bangladesh. Formal financing institutions like government and privately owned commercial banks normally give loans to large and medium scale industries (Alam, 2002). Cooperative banks in the country although gives loans to the rural-based micro enterprises, they confine their credit giving activities mainly to the members of the bank (BIDS 1981, 1988, 1989, 1990). One of the specialized and well known micro-credit giving organizations in Bangladesh called 'Grameen Bank' (Yunus, 1993, Nabi, 1996) also gives micro credit to the rural-based micro entrepreneurs especially the rural poor women. Besides many NGOs, moneylenders in rural Bangladesh are also an important source of lending funds to the rural-based micro entrepreneurs.

Due to the shortage of capital rural-based micro entrepreneurs are compelled to borrow funds from local moneylenders at a high rate of interest. In recent years different Islamic banks in Bangladesh started lending interest-free microfinance to different rural-based micro enterprises. In comparison with microfinance by conventional banks and other informal financing organizations the 'Interest-free microfinance' is found as one of the challenging and contributing lending tools which contributes greatly in creating job opportunities for unemployed rural poor and in enhancing the economic growth in the country.

LITERATURE REVIEW

In least developed countries, as in developing countries in general, micro entrepreneurs play significant roles in the elimination of the unemployment problem, which remains a serious impediment to a nation's economic growth. Although the large-scale industries are involved in mass-production and invest large amounts of capital, these industries are mostly urban based. Consequently, large-scale industries fail to play a significant role in solving unemployment problems related to the rural people. This is exactly where micro entrepreneurs succeed better (Anderson, 1982; Macuja, 1981, Ashe & Cosslett, 1989; Little, 1988; Little *et al.* 1987, Anderson *et. al.* 1982). The authors also observed that the most important economic role that the micro entrepreneur sector plays is the creation of job opportunities for unemployed people in the rural but also urban areas. A report

¹ 'Population and Development indicator for Asia and Pacific' (2008). ESCAP South and South West Asia, Mid 2007 ESCAP Region.
http://www.unescap.org/esid/psis/population/database/data_sheet/2007/DataSheet2007.pdf

published by the United Nation Development Program (UNDP 1993, p.41) shows that in the sub-Sahara region, the MEs in the informal sector expanded by 6.7 percent a year between 1980 and 1989 (salient are the MEs, which are mainly run by family members, for micro entrepreneurs do not observe any formal procedures to initiate business activities). The report also revealed that in the period 1980-85, the modern sector (urban-based micro entrepreneurs, where modern technology is used for production and certain formal procedures are adhered to in the industry) added only 500,000 jobs to the urban labor market while the informal sector created six million new jobs.

In relation to the role of micro entrepreneurs, Anderson (1982) Macuja (1981) argues that the rate of labor absorption by this sector is significantly higher relative to that of large-scale industries. It is thus observed that in the sector of industrial employment, the contribution of MEs is rather more pervasive compared to the large and the medium scale industries and more pronounced at the grass-root level.

However, studies shows that due to various problems, such as the lack of sufficient funds caused by inadequate infrastructural and institutional arrangements and shortcomings in the area of marketing and distribution, the growth of the MEs in the rural areas are less pronounced than could be expected (Alam 2002, 2003). The slow growth of MEs, in turn, results in the migration of manpower from rural to the urban areas, which ultimately increases problems, such as overcrowding, increased competition for fewer jobs etc., in the urban areas. Moreover, due to the limited job opportunities such urbanization additionally hampers the nation's economy. Myrdal (1968) in this regard observed that a rapid destruction of rural level or cottage industry would not only eliminate a source of supplementary rural income, but would also accentuate the push towards urbanization and further aggravate congestion in urban areas.

In Asia, small business development programs were introduced in the 1950s by the Indian government as it undertook an elaborate promotional scheme. Under the influence of Gandhian philosophy, a program called 'capital-saving characteristics of small-scale production units' was directed toward the village and cottage industries. The objectives of this program were to produce the 'necessities of life' at a cheaper rate and to help villagers become self-sufficient while lessening import-dependence. Later on, with the introduction of modern technological devices and the concomitant rationalization of procedures, cottage industries were transformed into modern small industries. Similar policy approaches to development by micro level entrepreneurs was tried later in Indonesia and Korea. Soon after attaining their independence, Kenya and Tanzania adopted programs for the promotion and development of rural based small scale industries (Urbi-Echevarria, 1992, Farooque, 1958).

Further to these studies on SMEs, it may be noted that under the auspices of the United Nations Economic Commission for Asia and the Far East (ECAFE), UNIDO and Asian Development Bank (ADB) many studies were conducted on small-scale industry in the

ECAFE region. Among these, a number of studies² highlight the root causes of the impediments to the development of rural based micro types business and industries and also make suggestions for solving these problems. However, all these studies fall short of any kind of discussions regarding microfinance to micro entrepreneurs without interest. This article mainly addresses difference issues relating to the interest-free microfinance to micro entrepreneurs by specialized financing organizations; Islamic Banks in Bangladesh.

RESEARCH METHODOLOGY

Research Method

The research methodology applied in the study is of a **qualitative nature** (Jick 1979, Merriam 1998, Sherman and Webb1988, Patton 1985). A qualitative type of research is characterized by collection of data directly from respondents in the field. This is because the entire research program is based on facts acquired from the material world, that is, the practical field of study. The study of lender-borrower network relationships between rural-based MEs owners and Islamic banks was conducted through **‘in-depth’ interviews** with respondents under review.

While interviewing respondents, based on Merriam’s (1998) ‘Interview Structure Continuum’ idea, I used highly structured, semi structured and unstructured interviews to suit whatever situation came up. A multiple explanatory **case study** (Yin 1994) method was adopted as a research strategy in order to focus on contemporary phenomenon within the real life context of different rural-based micro entrepreneurs under various GLME Systems and their relationships with financing organizations within the Islamic Financing Systems.

Time frame for data collection

As a part of data collection processes interviews were conducted to officials of different Islamic banks and their customers. The total time spent for collecting required data from the field was six months. The initial data collection was done in the year 1998, while officials of different Islamic banks were interviewed. During the second and the third field trip in 1999 and 2000 respectively, interviews were conducted to 360 grass-root

²For example, in Bangladesh, Nepal & India (ESCAP Secretariat, 1984.), Bangladesh (Siddiqi 1992), China (Sit, 1991; Wang, 1992.), China, Japan, India (Vepa, 1984), Ceylon (Abeyasingha, 1982), Hong Kong (Tam, 1984), Korea (UNIDO, 1988; Ouh 1984), India (Solanki & Qureshi, 1991; Sury, 1987; Bhattacharyya, 1988; Agrawal, 1988, 1989; Bhende, 1978, 1974; Singh, 1982; Brodribb, 1982; Vepa, 1982; Rooseboom, 1972; Kundra, 1991; Vepa, 1982; Ganguly, 1988; Venkataraman 1986), Indonesia, Philippines, Malaysia (ESCAP/UNIDO, 1984; Suhardi, 1991), India, Pakistan, and Sri Lanka (Subramanian, 1992), Japan (Aburtani, 1964), Malaysia (Hoong, 1989; Jordon, 1972), Pakistan (Syed, 1984), Philippines (Rossario, 1964; Alonzo et.al., 1992; Macuja, 1981; Salazar, 1986; Tan 1987), Philippines & Thailand (UNIDO, 1988), and Singapore (Yue, 1992; Keng, 1987).

level micro entrepreneurs; the clienteles of different Islamic Banks in the country. An average of 1:30 hours time was spent for each respondent while conducting interviews.

Respondents interviewed are belongs to different grass-root level micro enterprises, a list of which is shown in the Table 1 below:

TABLE 1: Respondents interviewed

Micro-Entrepreneurs	
Poultry	180
Diary	45
Handloom	75
Handicraft	60
TOTAL	360

The respondents interviewed are of different age group ranging from 18 years to 45 years old and 60% of the respondents are women. Interviews were conducted in different remote areas the country. These are for example; Khulna, Barisal, Dhaka, Chittagong and Cox’s Bazar.

Regarding the collection of data from the field a direct interview method was used. While conducting interviews the following steps were taken.

- Both formal and informal means of interview methods were used
- Structured and semi structured questionnaires were prepared and the same were used while interviewing respondents. The questionnaire was used depending on the circumstances and the qualifications of the respondents.
- Audio tap recorder used to record respondents answers. Where the use of tap was found difficult the answers were recorded in the note book
- Questionnaires were prepared keeping different issues into considerations like, lending procedures, bank-customer relationships and also other issues related to microfinance to micro entrepreneurs
- Subsequent to the interview recorded tap was replayed and data recorded in the spread sheet. The similar was applied with the data that were recorded as notes.
- Based on the interviews and respondents information data were arranged and analyzed from the theoretical perspective

Almost all respondents interviewed are clienteles of different Islamic banks in the country. However, it was observed that many of them used take loans from different financing organizations like, government commercial banks, different NGOs and informal money lenders, before they started taking loans from Islamic banks.

Theoretical Framework

The concept of an ‘**Institutional-Network**’ theoretical frame of reference (Alam, 2002), is used to study this particular phenomenon. The Institutional-Network theoretical

concept is developed based on Whitley's (1992a) 'Business System' institutional approach and Jansson's (2002) 'Network Institutional Model'. The Business Systems Approach is an institutional approach used by Whitley (1992b) to study business organizations, *inter alia* in Asian countries. The author, in his comparative study of Business Systems in East Asian countries, e.g. Chinese family business units (CFB) in Taiwan and Hong Kong, Japanese Kaisha and Korean chaebol, tried to find how firms' are constituted as relatively distinct economic actors in different market societies and how they organize economic activities in the form of dominant hierarchy-market configurations. The comparative analysis of Business Systems, as Whitley (1992b) observed is the study of these configurations. In this regard, the author argued that, a key task concerning the comparative study of business systems is to analyze how distinctive patterns of economic organizations become established and effective in different societies and how they change in relation to their institutional context. Whitley (1992a) in his study also observed that these patterns concern the nature of economic activities that are coordinated through managerial hierarchies and how these hierarchies organize their cooperative and competitive relations through markets.

Since one of the objectives of the study relates to the find as to how and to what extent the interest-free microfinance by Islamic banks contributes in establishing the lender-borrower network relationships, apart from Whitley's (1992a, 1992b) institutional concept, the network concepts of Jansson's (2002) 'Networks Institutions' model, is also used in the theoretical framework. The author integrated network with institutions and viewed the network from an institutional perspective. According to Jansson (2002) institutions also concern different types of habitual or recognized behavior, such as habits, rules, and procedures, implying that institutions are characterized by a rule-like or governing nature, an ability to facilitate and constrain inter-human and inter-social relations, and by predictive behavior. Veblen (1919, p.239) in this regard observed that, institutions themselves are comprised of settled habits of thought common to generality of men. In order to study the relationships between Multi National Corporations (MNCs), MNCs and their commercial partners, the author used a network approach and developed a theory to analyze such linkages. In order to study the network relationships between and within organizations belonging to the two focused institutions, for example, Micro-Enterprise Systems (MES) and Major Financing Systems (MFS) and their relationships with other economic actors in the organizational fields, the concept of Jansson's (2002) Trans-organizational Network theory is also used in the theory. As the networks are looked upon from different angles, the study also used the network concepts as defined by different authors like Rasmussen (1988), Kuklinski & Knoke, (1988), Anderson and Carlos (1976), Easton & Araujo (1991), Elg & Johansson (1992), Easton (1992), Håkansson (1993), Aldrich & Whetten (1981), and Emerson & Cook (1984).

To study the impact and influence of 'Interest-free microfinance' to the rural-based micro entrepreneurs, based on Whitley's 'Business System (BS)' financial organizations of similar types in Bangladesh are categorized into different Financial Systems, for example; market based financing system (MBFS) such as conventional banks, Islamic Financing Systems (IFS) such as different Islamic banks, cooperative financing system (CFS), and traditional money lending system (TMLS) viewed as particular arrangements

of hierarchy-market relations that become institutionalized and relatively successful in a particular context. A similar arrangement is also done to institutionalize different rural-based micro enterprises. Various micro enterprises of similar nature are thus, grouped into three different ME Systems, such as grass-root level (GL), season-based (SB) and semi-mechanized (SM) ME Systems. Financing organizations and micro enterprises under different Financing Systems and micro entrepreneurs under different ME Systems are regarded as economic actors acting within these organizational fields.

The present study mainly focuses on the lender-borrower network relationships between financing organizations under Islamic Financing Systems (IFS) and the Grass-root level micro enterprises under Grass-Root Level Micro Enterprises System (GLMES)

The Institutional-Network theoretical model, which is developed based on the above discussion, is shown below in figure 2

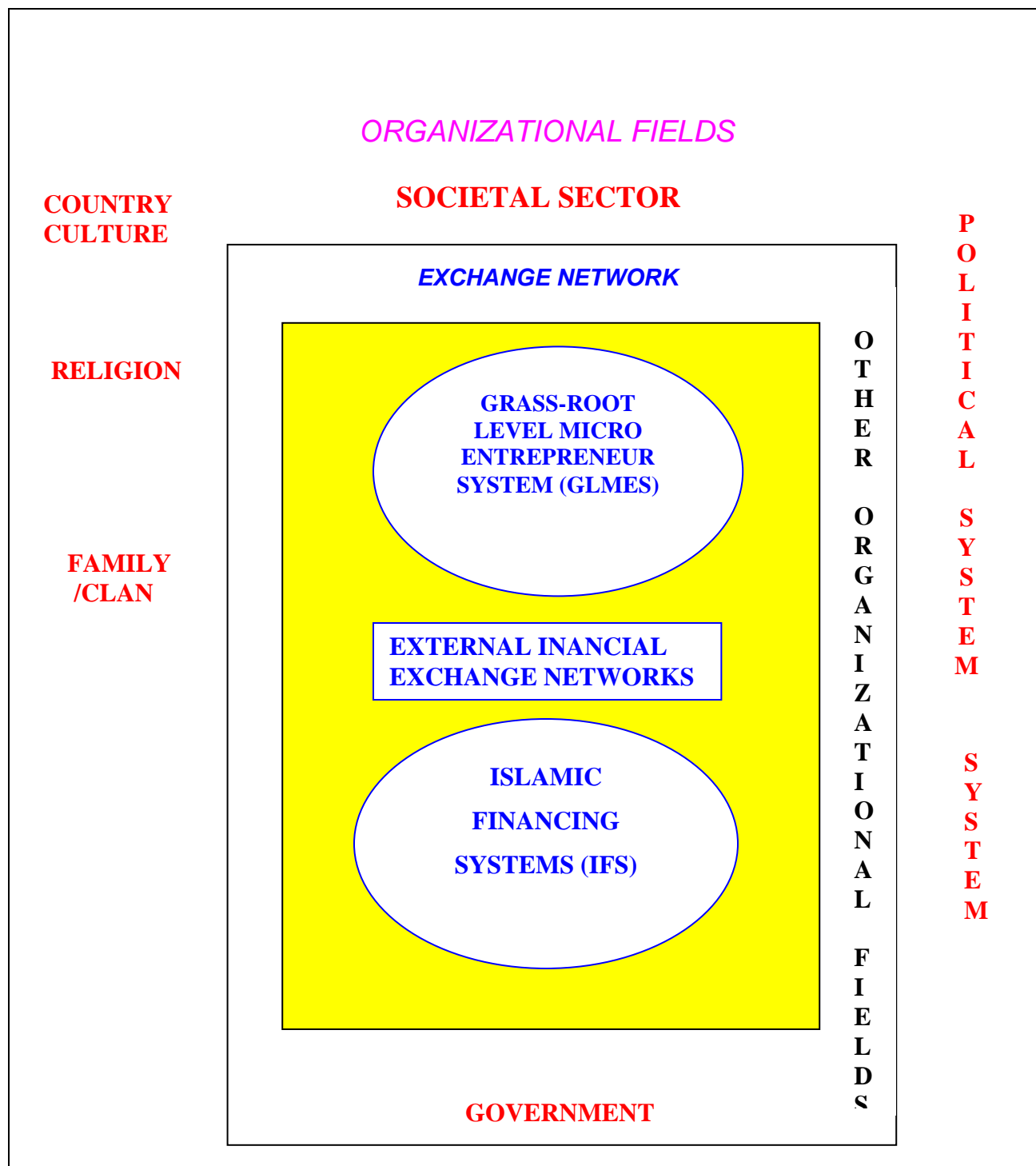


Figure 1: Institutional-Network Framework (adopted Alam 2002)

The theoretical model shown in above figure consists of two major fields: the financial market and other organizational fields. Since the focus of the present study is concentrated towards the study of the Islamic microfinance by Islamic banks to the grass-

root level micro enterprises under GLME Systems and their relationships with different Islamic banks under Islamic Financing System (IFS) within the financial market field, this field is divided into two sub fields: the GLMES and the IFS. Thus, these issues are viewed under the organizational fields in the first rectangle. GLMES and IFS are viewed as two different institutions in the organizational fields. The second box or major field consists of different actors in the other organization fields. These actors are for example, customers, intermediaries (local leaders, seniors), competitors, and suppliers. They are related to the product and service exchange networks, influencing the major organizational field of the financial market in the first rectangle. The external financial exchange network between GLMES and IFS shown in the framework is meant for studying the exchange network relationships between and within different organizational units belonging to Micro Enterprise Systems and the Islamic Financing Systems in the financing market of the major organizational fields.

Since the exchange activities and network relations of different actors in the organization fields are influenced by societal sector institutions like country culture, religion, family/clan, political system, legal system and government, these institutions are placed in the outer rectangle. These macro institutions surround the major institutions in the first and the second organizational fields. They are shown in the outer rectangle in order to study their influences on the exchange functions with regards to interest free micro-credit to different micro-enterprises under MESS by financing organizations under IFS and also other institutions within and between these organizational fields.

CONCEPT OF INTERST-FREE FINANCING ORGANIZATION

An interest-free financing organization known as a 'Islamic bank' may be defined as a financial intermediary whose objectives and operations as well as principles and practices must conform to the principles of Islamic Law (Sarah); and, consequently, is conditioned to operate all its activities without interest. Regarding interest in Islamic economics Ahmed (1981, 1994), Chpra (1992, 1983) argued that elimination of interest does not mean zero-return on capital rather Islam forbids a fixed predetermined return for a certain factor of production i.e. one party having assured return and the whole risk of an entrepreneurship to be shared by others. The authors also observed that it is the capital entrepreneurship that shares both the real contribution and the real profitability. The Islamic bank follows the principle of *equity based-investment*. The Islamic banking system also proposes that resources can be contracted on the basis of venture capital and risk sharing deals. The introduction of Islamic Banking in modern world is based on the principles of Islamic economics. The aim of Islamic economics is not only the elimination of interest-based transactions but also the establishment of a just and balanced social order free from all kinds of exploitation (Molla et. al 1988; Chapra 1985).

One of the major aims of Islamic banks under Islamic Financing System is to render financial services to the rural-based micro-enterprise sector in a society. In many ways,

Islamic banks are similar to other privately- owned formal financial intermediaries. The main difference is that an Islamic bank neither accepts deposits nor invests funds to its customers on interest. Instead, the bank shares profit or loss. Nienhaus (1983, 1988, and 1993) in this regard observes that the rural based micro entrepreneurs are not being benefited much either by the state-owned or the privately owned financial organizations. One might therefore find it interesting to observe how an Islamic bank acts as ‘bank for rural micro entrepreneurs’; for example, how far an Islamic bank, with its motive of investing funds on a ‘profit and loss sharing’ basis, may contribute towards financing and promoting rural-based micro enterprise sector.

ISLAMIC BANKS’ FINANCING MODES USED IN BANGLADESH

Depending on the nature of business, Islamic banks in Bangladesh use different investing modes while lending funds to their customers. Under ***Capital financing (Mudaraba)***, mode of financing Islamic banks supplies the entire capital of the business and the customer gives his time and expertise, which form a relationship between the supplier of capital and the user of capital. Thus, the bank and the customer work together and share profits and losses. The ***Partnership financing (Musharaka)***, also known as profit and loss sharing mode of investment is mainly used while investing funds to joint venture, designed to limited production or commercial activities of long duration. In this case the bank and the customer contribute capital jointly. They also contribute managerial expertise and other essential services at agreed proportions. Profit or losses are shared according to the contract agreed upon. Under the ***Mark-up or Costs-plus-profit based financing (Murabaha)*** mode of investment the bank agrees to purchase for a client who will then reimburse the bank in a stated time period at an agreed upon profit margin. The mark-up price that the bank and the buyer agree to is mainly based on the market price of the commodity. Thus, the bank earns a profit without bearing any risk. The ***Cost plus sale under deferred payment (Bai-Muajjal)*** mode of investment is as like as ***Costs-Plus-Profit based financing (Murabaha)*** mode of investment with an exception that the sale under this cost-plus sale modes investment is made on a credit basis rather than cash. The main feature of this technique consists in procurement of goods at the request of the clients and selling it to them on credit. This mode follows the same conditions as Murabaha mode of investment except the bank transfers the possession of goods to the client before payment and in order to cover the sale price of the goods the bank obtains collateral securities from the client. Islamic banks used this specific mode of investment while lending funds to the rural-based micro entrepreneurs. In the ***Advance purchase (Bai-Salam)*** mode of investment the bank purchases industrial and agricultural products in advance from their customers and the price is normally paid with the execution of an agreement. Under the ***Hire-Purchase investment under Shirkatul Meelk*** the bank sells building, transport and other valuable items to the client. The value of hire-purchase amount is payable in installments. When the client pays back the value of the goods including rent, the ownership is transferred to him. The ***Leasing (Ijara)*** purchase is another technique that Islamic banks in Bangladesh follows while lending funds to their clientele. This system is almost similar to the leasing activity provided in traditional

banking. Leasing is a contract between the bank and the customer to use particular assets. In this case the bank is called lessor and the customer is called lessee who wants to use the assets and pays rent. Zineldin (1990), in this regard argued that the leasing agreement is based on profit sharing in which the bank buys the movable or immovable property and lease it to one of its client for an agreed sum by installments and for a limited period of time into a saving account held with the same bank. These installments are invested in Mudaraba investment (Venture) for the customer's account. The accumulated profit generated from the payments, and the payments themselves are invested in the bank's investment ventures over the time period of lease, contributing to eventual purchase of the leased assets

INTEREST-FREE LENDING PROCEDURES FOLLOWED BY ISLAMIC BANKS IN BANGLADESH

This section represents a summary of various information gathered from respondents (both lenders and borrowers) while conducting field studies. It includes the description of different issues like, the interest-free microfinance policies that Islamic banks used, bank-clientele network relationships, formalities that borrowers must observe to be eligible for obtaining loans, mode of the repayment of loans, securities required to obtain loans and other related aspects regarding microfinance to the grass-root level micro entrepreneurs. It is mentioned in the previous section that Islamic banks in Bangladesh uses the Cost-Plus Sales under Deferred Payment (Bai-Muajjal) mode of financing while gives loans to the rural-based micro entrepreneurs. The amount of loans given to micro entrepreneurs interviewed ranges to minimum US \$ 100 and a maximum of US \$500³.

Preliminary contact with customers

The loan giving processes normally initiates from the Islamic banks. In order to introduce the interest-free microfinance concepts and of Islamic banks' activities to the rural based micro entrepreneurs, bank officials in charge of microfinance normally visits certain rural areas where the bank intended to give loans. They organize a public meeting with the help of their existing customers and local influential people. Later with the help of these people the bank collects the name of prospective customers. In order to attain this objective, the officers normally contact people of different categories for example, the existing clientele of the bank in that locality, the 'religious leader' of the nearby mosques, teachers of the nearby schools, senior and socially influential persons known to prospective micro entrepreneurs in the area. The information gathering process continued for some times depending on the social conditions and environmental situations prevailing in a particular locality. Soon after, the information gathering stage ends the bank officer in charge with the help of familiar persons in that area establish informal contact with targeted customers. At a later date, the officers arrange a formal meeting with different entrepreneurs and informed them about interest-free microfinance facilities of Islamic banks. Thus, these lending organizations developed a lender-borrower network

³ 1 US Dollar = 70.35710 Bangladeshi Taka, Wednesday, December 3, 2008 (<http://www.oanda.com/convert/classic>)

relationship with their clientele and inform them about the concept of the interest-free microfinance and the procedures to borrow such types of funds from the bank. The entire activities of gathering information on prospective customers are like that the bank official goes to customers rather than customers coming to the bank. Once the prospective customers were informed about the nature of interest-free microfinance, the bank officials begin observing necessary formalities to lend funds to customers.

Formation of Groups and Teams

Once, the banks officials are satisfied with the required information regarding prospective clientele and establish formal communications, they ask the clientele to form **groups** amongst themselves. Customers intending to take loans must form a group consisting of **five** members. This is one of the pre-condition of obtaining loans and must be done by the customers before the request for a loan may be assessed. Each group required a volunteer group leader who organized and assists group members in obtaining loans from the bank. In such a group-wise loan, group members are jointly held liable for the mistakes the other members might make. After the grouping is completed bank officials advise group leaders in every group to form a **team**. The team consists of **five group leaders** from five individual groups. All groups within a team are in turn also responsible for each other's activities and they relate every instance back to their designated **team leader**. The group leaders of five different groups worked as members of a **team-executive-committee** and this committee select one president, one cashier, and one secretary.

The bank's staffs are responsible for training the group leaders. The training consists of information sessions where everyone learns general ideas and techniques about their production activities. For example, in case of poultry firm, the team leaders of the poultry firms are taught how to care of chickens at every phase of the chickens' life; this includes how one ought to administer medicine and other nursing aids when the need arises.

Weekly savings a must for a specific time

Immediately after the groups are formed each customer in the group is asked to deposit certain amount of money with the bank. While interviewing micro entrepreneurs and Islamic banks it was noted that the customers of two leading Islamic banks in Bangladesh, the Social Investment Bank Limited (SIBL) and Islami Bank Bangladesh Limited (IBBL), had to save and deposit with the bank an agreed-upon amount every week. This is one of the conditions to obtain micro-credits from these banks. As a normal procedure of collecting weekly savings from a group member, the group leader collects money during the week from the members of his or her group. A rough ledger is maintained where each member's contribution is recorded. At the end of every week, the group leader of each group submits the entire sum of cash, along with the record of names of the depositors, to the cashier of the team. The bank officers in charge of supervising the projects visit the project-site once in a week and collect these deposits from the cashier of the team. The amount that is collected is then credited to the respondents' savings accounts.

In order deposit weekly saving, every member in a group is required to open a savings account with the bank. The savings accumulate gradually and steadily using this method, for up to *ten weeks*. It was noted during field studies that the respondents under review opened savings accounts with the bank under their own names. These types of savings accounts are called 'Profit & Loss Savings Accounts' (Mudaraba Savings Accounts). After the account had been opened, each member of a group was expected to begin depositing either a minimum amount of TK. 25 or a maximum of TK. 50⁴ every week.

Pre-requisite condition to borrow funds for projects

The bank official responsible evaluates the customers' project proposals and determines whether the project is appropriate and profitable and demanding in the society. The bank officials also help in preparing rough proposals and estimated costs for each project of their customers. The bank handles the weekly sum of savings quite carefully because a customer's deposit figure must exceed 5% of the loan amount he/she applied for. No customer is entitled to receive any loan from the bank, until the said targeted savings (exceeding 5%) is deposited with the bank. For this reason, the bank officer regularly used to give business advice that would be necessary if his/her clients were to succeed. The officers normally encourage them to be punctual with the deposits of their weekly savings so as to avoid hassles.

Direct contact with bank officers during savings period

The bank officers-in-charge, during the ten-week saving period, inquire about each borrower's working capability and the types of business they were interested in for the future. The bank officers met every group at different times to educate them about the interest-free micro credit systems, and particularly about its techniques and its aims. At the same time, they also give clientele information about how interest free banking system work in a society. It was noted that bank officers frequently visits business site of the customers at a regular interval and discuss all relevant issues with customers.

Initiation of loan process

Soon after the saving period of the ten weeks came to an ended, the group leaders arranged a meeting with all the individual members of each group. In this general meeting, a resolution is drafted and passed regarding the amount of loan each member intended to borrow from the bank. A copy of this resolution is then prepared for the bank officers. The same is handed over to the bank officer when he/she comes to visit the site. After considering this resolution, the visiting bank officer fixed a date with each

⁴ 1 US Dollar = 70.35710 Bangladeshi Taka, Wednesday, December 3, 2008 (<http://www.oanda.com/convert/classic>)

individual member of the various groups to visit the bank with their group leaders and to sign the contract for the loans.

Securities required

As a security measure, a customer is required to produce their land property title documents as well as a letter of recommendation either from a person notarized by the bank or from an influential customer of the bank in the locality.

Payment of loans

Once, the above-mentioned procedures end the bank arranges the payment of loans to every member in different groups. It is mentioned earlier that while giving loan amount the bank applies the regulations of its Cost plus Sales under Deferred Payment (CPSDP) mode of investment mode of financing. Under this mode of financing the bank does not issue the agreed-upon loan amount to the customer in cash, as is the custom of most conventional banks. As it was observed, once customers signed their loan agreement with the bank, the respondents under review were asked by the bank to select a supplier and to bring invoices for the price of goods or raw materials that they required for their project. The customers are responsible to look for suppliers and to collect invoices from them and hand over to the loans giving officer of the bank. Once the bank authorities were satisfied with the invoice prices, the quantity of goods or materials etc., he/she made necessary arrangement to pay the money directly to the suppliers. The bank then debited the same amount from each customer's account, in accordance to the amount each had stated was necessary for his/her specific needs. In this way, the bank ensures that the fund borrowed by entrepreneurs will be directed efficiently and that the customer will be successful in achieving his or her goal.

Profits determination by banks

A further condition of lending credit under the 'Cost Plus Sale under Deferred Payment' financing mode is that, Islamic banks normally calculate a percentage of profit on top of the invoice price after the customers present their invoices for the materials they intend to buy. The principle of this specific mode of financing is that the bank first buys goods for customers and then sells these goods back to them at a profit. The bank realizes the principal amount of loans plus the profits from customers in separate, equal installments. The rate of profit added to the principal amount may differ from bank to bank. However, it was observed that the Islamic banks under review charge the micro entrepreneurs 14% of their net profits on the goods bought by the bank for the customer. Soon after the purchase is made, the respondents became the owners of the goods and are responsible for its proper use.

Repayment of borrowed funds

The repayment of loans, including profits, is normally divided into a number of equal installments. The banks fixed the installment rate of repayment of the loan. This repayment time starts two weeks after the customer receives the loan or soon after the product is ready for sale in the market.

Direct supervision of borrowed funds

The Islamic banks under review allowed their customers free access to their entire borrowed fund, with an important stipulation; before one is able to get unlimited access, one must prove to the bank that the amount being lent will only be spent to buy goods or raw materials or other accessories for the development of the farm. In order to do this; the customer must produce new invoices from the vendors of the goods or raw materials each time he/she visits the bank. They may then utilize the whole amount all at once, or however else they may see fit. This is allowed to take place only after the loan has been sanctioned and credited to the individual's Profit and Loss Savings Account.

Almost all Islamic banks in the country follow the same system while giving micro-credit to the rural-based micro entrepreneurs. However, direct contact with customers and supervision of the borrowed funds sometimes differ from bank to bank. Since the credit is given in kind rather than cash, the supervision of loans are done according to the plan and program developed by each individual banks.

END RESULTS: AN ANALYSIS OF EMPIRICAL FINDINGS

It is known from the above section that the lending procedures of Islamic banks towards rural-based micro entrepreneurs are different from other conventional banks in the country. The above section highlights on how the rural-based micro entrepreneurs in Bangladesh were able to contact Islamic banks and obtain loans and also the procedures that these banks follow to lend interest-free microfinance. Based on the interviews conducted, this section of the paper reviews the empirical findings with regards to the impacts and influences of interest-free microfinance on rural-based micro entrepreneurs in the country.

Promote institutional Credit facilities for micro entrepreneurs

It is observed from the study that the majority of the rural based micro entrepreneurs in Bangladesh not only suffer from the shortage of capital but also lacks in institutional credit facilities. Most of the conventional banks in the country are urban based very negligible amount of their deposits they invest for rural based micro entrepreneurs. Moreover, due to the lengthy and complicated loan procedures rural based micro entrepreneurs fail to obtain. This in turn, gives opportunities to informal money lenders to promote their money lending business among rural based micro entrepreneurs at a higher

rate of interest. It was found that, almost all of the respondents interviewed borrowed funds from different sources, before they became clienteles of Islamic banks. A few of them took loans from different conventional banks. They reported that, while obtaining loans they become the victims of middlemen and they were to pay a good portion of their borrowed funds to them as fee. Many also took from money lenders who used to take the lion's share of their earning as interest. While conducting interviews, I tried to acquire knowledge from the respondents about different sources from where they used to raise funds before taking loans from Islamic banks. The information obtained from the micro entrepreneurs under review is shown by the following Table 1.

Table 2: Sources of funds

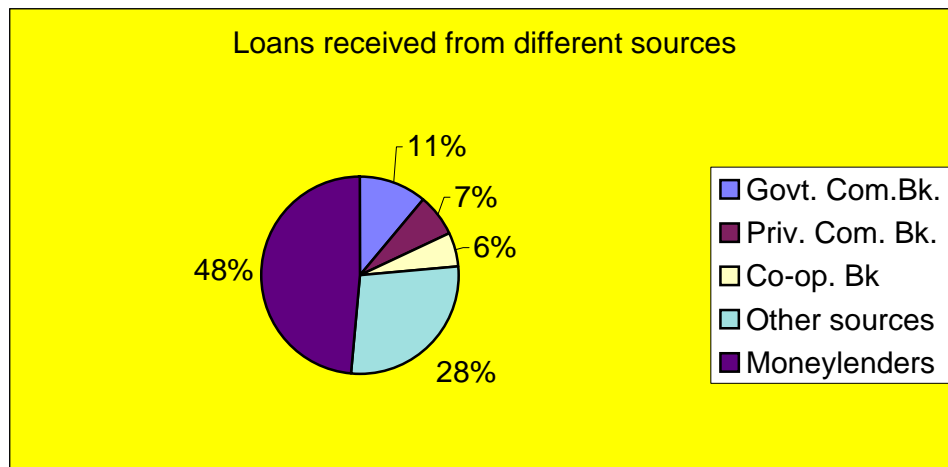
	Sources of funds					
	GCB	PCB	COB	OS	ML	
Poultry	05	03	02	55	90	155
Diary	12	08	04	25	20	69
Handloom	17	10	10	15	55	107
Handicraft	06	04	04	05	10	29
TOTAL	40	25	20	100	175	360

Note: GCB: Government Commercial Banks, PCB: Private Commercial Banks, COB: Co-operative Banks, OS: Other Sources (Family & Friends), ML: Money Lenders

Source: Field work on microfinance to micro entrepreneurs 1998-1999

It may be noted from the above table that, 40 out of 360 MEs took loans from government commercial banks, 25 from private commercial banks, 20 from co-operative banks, 100 from local family and friends and 175 from local money lenders. These numbers are demonstrated in percentage form by figure 2 below:

Figure 2: Sources of funds of rural-based micro entrepreneurs in %



(Source: Field study on micro entrepreneurs in Bangladesh 1998-1999)

It is apparent from the above figure that more than 75% micro entrepreneurs raised their funds from informal sources of which about 48% from moneylenders. Only 24% of the respondents received loans from formal credit giving institution. Thus, it may be concluded from the study that by giving interest-free microfinance Islamic banks enhanced the institutional credit facilities the rural-based micro entrepreneurs in Bangladesh.

Institutionalize and promotes saving habits among micro entrepreneurs

The lending policy of financing organizations in the IFS institutionalized the saving habits. It also promotes the saving tendencies among rural-based micro entrepreneurs. As mentioned in the earlier section, one of the lending principles of Islamic banks is that owners of the grass-root level micro entrepreneurs must deposit a certain percentage (5%) of the borrowed funds. In order to accumulate the same the group members are required to make a weekly savings. Thus, the very lending mode that Islamic banks use promote saving mentality among the customers. The following figure (Figure 3) demonstrates how interest free micro credit by Islamic banks facilitates in developing saving habits among the rural-based micro entrepreneurs.

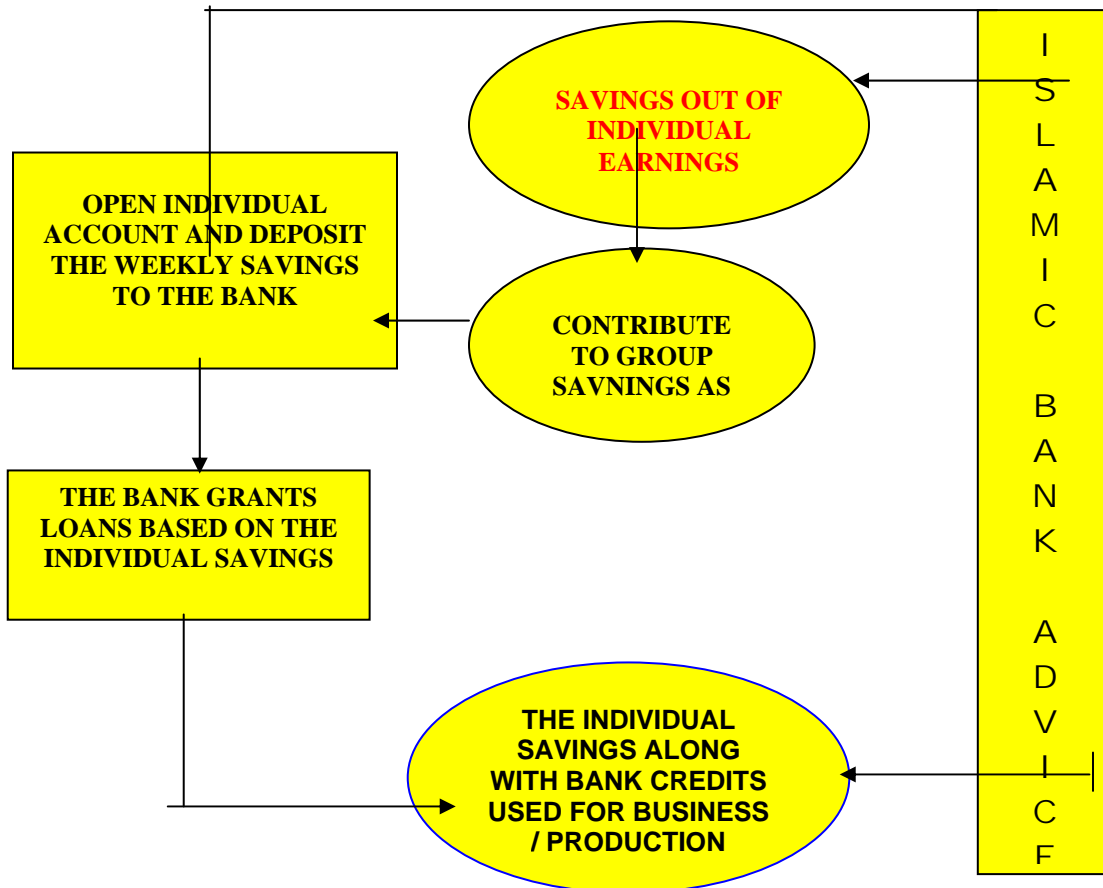


Figure 3: Institutionalization of saving habits through Islamic banking lending process

Islamic banks guide the clientele to save from their personal earnings and to deposit the same with the bank. Later the bank gives their savings back along with the loans sanctioned. Thus before lending funds the customers are trained as to how to take care of funds in the form of savings.

Enhances the productive uses of rural savings

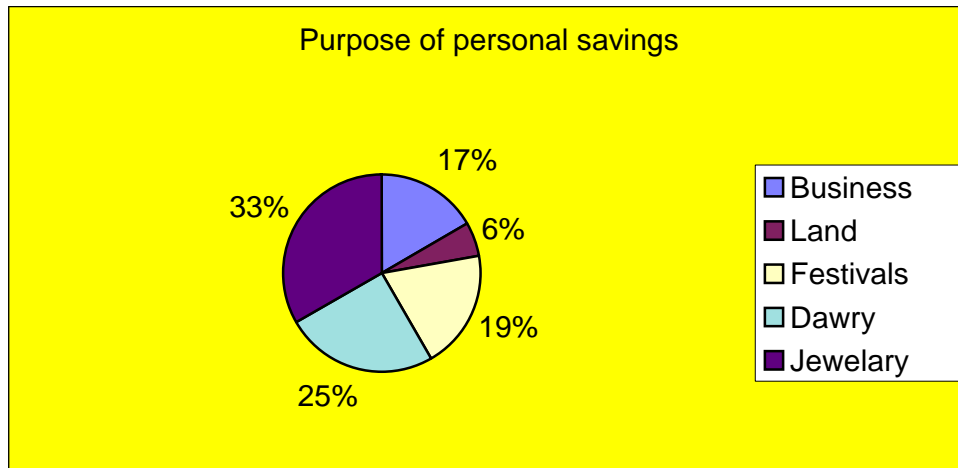
The study also shows that the very lending procedure of Islamic banks makes productive uses of rural savings. Although not in an institutionalized form rural poor normally try to save whatever they can from their little earnings, yet it is found from the study that majority of these savings are used in unproductive ways. Thinking of their future safety, many like to spend their saving in buying jewelries, or a little piece of land. Thus they make their savings idle. Many were found using their savings to pay ‘dowry’ (gift in cash and kind given to the husband of their daughter during marriage) for their daughters’ marriage. Unfortunately this is sad part of the social culture in many parts of Bangladesh. Again many were found spending their saving for celebrating different social and religious functions. Very few were found interested in investing their fund for the business. It is due to the risk involvement and the fear of losing of what little they have. While conducting interviews questionnaires were asked about the purposes of respondents saving. The response is shown by the following Table 3, below.

Table 3: The Purposes of using of personal savings

Micro-Entrepreneurs	Purpose of Personal Savings					Total
	Business	Land	Festivals	dowry	Jewelry	
Poultry	20	04	11	23	30	88
Diary	05	06	13	14	40	78
Handloom	25	07	20	25	45	122
Handicraft	10	03	26	28	05	72
TOTAL	60	20	70	90	120	360

From the table above it may be noted that the majority of the people use their savings both for dowry and Jewelry. Although there are some who invest their savings to buy land the number is not much since the price of land is high and thus many can not afford to buy. The summary of the above is shown in % by the Figure 4 below.

Figure 4: Purpose of using of personal savings in %



(Source: Field study on micro entrepreneurs in Bangladesh 1998-1999)

It is apparent from the above figure that only 17% of the respondents under review invest their savings to the business. It is mainly due to the lack of a proper guide and knowledge as to how to utilize the funds in a business. Thus, many entrepreneurs fail to realize any benefit from their savings. It was found from the study that many micro entrepreneurs used to take loans from local money lenders at a higher rate of interest while invested their little savings in an unproductive way. Due to the cultural influences even poor people are to spend lots of money for various religious and matrimonial festivals. This in return eats up a lion's share of their savings. It may be noted in the above figure that about 17% of the savings rural micro entrepreneurs spent on different social functions and festivals. Islamic banks with the application of their microfinance policies stimulate a tendency among borrowers to save funds and to utilize these savings towards productive activities. The lending principles used by these banks for their customers make them compel to raise sufficient funds or save money in order to be qualified for obtaining loans. Thus, the lending policy of Islamic banks not only encourages the micro enterprises owners to save funds, but also encourages them to invest these funds in profitable projects. It is thus concluded from the study that, the very loan giving procedure of the bank mobilizes the rural savings towards productive projects.

The lending procedure makes micro entrepreneurs more organized

It is found from the study that most of the customers of Islamic banks are not well organized. They need guidance in their business as well as personal and social life. The very microfinance procedures of Islamic banks not only educate them regarding interest free loans but also organize their activities by close supervisions so that they might contribute in the society. Apart from that, the entire lending activities of the banks are organized in such a way that the borrowers are benefited from the beginning to the final stage of their projects. Thus it may be concluded that, the loan giving procedures from the initiation to end makes the activities of the micro entrepreneurs more organized.

Assists micro entrepreneurs in raising working capital

It was observed from the study that working capital is a major hindrance for rural-based micro entrepreneurs, lack of which often compels them to use their borrowed funds to overcome their capital shortage rather than investing it for business. In this regard Ashe & Cosslett (1989), observes that the lack of working capital often leaves owner little resources other than to buy from certain suppliers on credit and at very high prices, thus exacerbating the common problem of chronic indebtedness. Since, Islamic banks encourage clients to save cash, which of course is one of the requirements to get micro credit, it contributes entrepreneurs to generate working capital from their savings.

Proves credit worthiness and adds security

The study reveals that as a rule, in order to obtain micro credit entrepreneurs in the grass-root level ME System must deposit a certain amount of their savings with the bank. This stipulation not only ensures saving but also allows Islamic banks to judge the credit worthiness of rural-based micro entrepreneurs. Islamic banks, like other conventional banks, also take freehold properties as a security from customers. In many cases there is no problem even for rural-based entrepreneurs to give such securities. However, due to economic hardship, it is tough to give any cash amount as security. As part of their credit giving policies, financing organizations in the Islamic Financing System encourage borrowers to save. This ultimately makes financing organizations sure that borrowers are really worthy of giving credit to. A saving attitude also makes customers mentally strong and encourages them to work hard to prove their worthiness to the lending organizations. By this process, Islamic banks also make sure that the borrowers have sufficient cash as working capital.

Promote different types network relationships

In order to give micro-credit the setting of groups among micro entrepreneurs are done according to their same nature of activities or related to the same units of productions. Further to that these groupings are also characterized by same religious beliefs or similar cultural standings. The process of every individual entrepreneurs in the grass-root level ME system of accumulating their personal savings in different groups and depositing the same with the organizations in IFS intensifies the trustful **personal networks** among clientele (Johannisson et al. 1992; Easton & Araujo 1991; Birley 1985; Aldrich & Zimer 1986).

As mentioned earlier that Islamic banks normally collect information about their customers from several sources before they start an exchange relationship with their clients. They use both formal and informal means of collecting such information, while financing organizations in the market-based financing system and the cooperative financing system mostly use formal means. Islamic banks go beyond the formal means in order to procure information about their prospective customers. To collect information about the rural based micro entrepreneurs, they sometimes contact local political leaders,

influential religious leaders, for example Imams (priests) of mosques, other well-known religious leaders, seniors and other key social figures. They also contact their customers in certain locality before initiating loans to any new client. The firms belonging to different MES spend a great deal of time developing their network relationships with such people in order to have a good reputation or to have easy access to the financing organizations for a loan. Thus, this lending technique of the Islamic banks widens the scope of network relations not only with borrowers but also with different economic actors in the organizational fields.

Micro entrepreneurs normally make a group as required by the bank mostly belongs to the similar types of business and of same background. This attitude of the customers develops the *symbolic network* (Rasmussen, 1988) among them.

It is known from the study that, while micro entrepreneurs form groups they try to include in the group people from the same family/clan, relative, or friends. Since the grouping is made with the people of the same mentality and of same social status it helps group members in accumulating required group savings without any difficulties. It was found from the study that if a group member fails to raise necessary funds from his or her savings other members in the group try to help them. Since the relationship among members in a group is mainly based on same culture, family/clan, relatives and friends and acquaintance it develops *social network* among them

The close ties among workers within the organization promote the **intra-organizational network relationships** (Aldrich, 1979, p.281), and since the individual savings are organized and managed through group savings, an individual member develops a close ties with other members in the group which ultimately contributes in promoting **inter-organizational network relationships** (Aldrich, 1979, p.281) with members in the group. Furthermore, since the entire saving activity and accumulation of required customers' deposits are supervised by the financing organizations within IFS, their **external network relationships** are extended to different organizational units in the grass-root level ME System. Thus, the micro-entrepreneurs not only extend their network relationships with the lending organizations within IFS but also with different entrepreneurs within the grass-root level ME System. This in return develops and intensifies *intra – organizational and inter-organizational network relationships*.

Furthermore, it may also be concluded that the long-term lending policy of the organizations in the Islamic financing system increases the interdependency between exchange partners. This results in the deepening of lender-borrower relationships and also helps exchange partners to get to know each other better. A continuous and long-term exchange relationship contributes in developing trustful financial ties between the lenders and borrowers. When the long-term lending policy increases interdependency, the commitment to exchange partners also increases.

Eliminate the exploitation of middlemen

It is observed from the study that many of the respondents who took loans earlier from conventional banks were victims of middlemen. The rural entrepreneurs who are unable to follow formal procedures to obtain loans from conventional banks normally look for someone to help them. The middlemen come forwards to assist these poor people but take a big percentage from their borrowed funds as fees. The middlemen also maintain close ties with bank personnel dealing with loans and share the benefit with them which they take from poor entrepreneurs. Due to the middlemen interferences micro entrepreneurs are to lose a big portion of their borrowed funds. Since, Islamic bank officials deals directly with micro entrepreneurs and follows simple formalities in advancing loans the question of middlemen interference does not arise. Thus, the interest free micro credit procedures of Islamic banks save their clientele from middlemen.

In kind microfinance contributes in making productive use of borrowed funds

It is mentioned in the above section that the Islamic banks do not extend credit to their clients in cash but paid in merchandise of a kind. By this the bank gets sure of the customers' use of funds for the purpose they borrowed for. In many cases, government or privately owned commercial banks and cooperative banks failed to realize their debts from the rural-based micro entrepreneurs since they did not end up using the borrowed funds for the same purpose they borrowed for. They didn't use the money for business ventures and so were not able to make any profit to repay their loans. Since the Cost plus Sales under Deferred Payment (Bai-Muajjal) mode does not allow customers to borrow funds in cash, they are bound to present pro-forma invoices of materials or goods that they intend to buy. The application of the "in-kind" (for example, loan in material or goods rather than cash) lending principle shows that the loans recovery rate of Islamic banks is higher than other financing organizations.

Creates mutual obligations between the parties

The lending of funds by Islamic financing organizations to micro entrepreneurs may be termed as '*giving and taking policy.*' By this term, it is meant that, the lending policy of the financing organizations in the IFS is arranged in such a way that, borrowers first of all must deposit in order to be qualified for a loan. It creates a mutual obligation between the lenders and borrowers. The micro entrepreneurs are bound to fulfill their obligation by depositing savings with the bank. Once customers comply with this condition, as rule the bank gives loans to them. This system makes the customers conscious of making proper use of their borrowed funds. This system also develops initiative among micro entrepreneurs to work hard and to be sincere in dealing with bank loans. It also encourages them to save more as they need to repay the loans after a certain period of time. The amounts of loans are of course higher than the savings that customers deposited with the bank. The obligation of the bank is looked from the standpoint that they become more vigilant to observing that the loans are being properly utilized, failure of which might cause a great financial loss to them. Thus, it is concluded that the lending policy of the IFS through developing saving habits creates mutual obligations between the lenders and borrowers.

influences of the societal sector social institutions

Based on the data collected from the field research, this section includes a detailed description of the influence of societal sector institutions like, country culture, religion, family/clan, political system, legal system and government on the lender-borrowers network relationships between the economic actors in IFS and ME systems under review. From the respondents perspective the research results are shown in the following section reflects as to how different societal sector institutions influence on the exchange activities between micro entrepreneurs and lending organizations, especially Islamic banks.

Religious systems promote obedience and loyalty and develop saving mentality

The societal sector institution of the religious system relates to various features of the organizational fields like loyalty and obedience, boss-subordinate relationships and trust. As majority people in rural Bangladesh are Muslim, they more or less practice religion in their daily life. Since the Islamic banks are guided by Islamic 'Shariah' (Law) the activities of the banks belongs to a particular religious system. Thus, besides financing, the banks take initiatives through their lending process to educate clienteles from the religious viewpoints about the advantages of the unity and trust as well as obedience and loyalty. The religious faith and religious teachings in turn, make the lender-borrower network relationships more strong.

As it is a custom in society that religious leaders teach how to show due respect and regards to elders, this helps to develop obedience and loyalty by juniors to their senior in the family as well in the organizations. It is known from the study that the religious attitude among micro entrepreneurs has an impact on the centralized supervision and control of micro enterprises. Unity and integrity are also some of the importance teachings of the religion, which influence the organizational routines of micro entrepreneurs.

However, besides above mentioned advantages there are negative impacts of religious system too which sometimes paralyzes the overall progress of the micro entrepreneurs. It is found from the study that in order to exploit uneducated poor people many so called religious leaders abuses the religion or religious system. In the name of religion they take undue advantages from them. It is to be noted that the religious system in our society is not well organized and many priests find their own way of introducing religious activities. Religiously ignorant rural people hardly understand what is right or what is wrong from the viewpoint religious beliefs. Many rural-based micro entrepreneurs thus sometimes become the victims of not the religion itself but of the so-called religious leaders.

Family/ Clan' a means of promoting boss-subordinates relationships

The family/clan relates to various features of the organizational field like boss-subordinate relationships, centralization of decision and delegation of authority. Family ties may be termed as 'expressive ties' (Jansson, 1994) where people of the same family or clan work together in the firm. It is understood from the study that micro entrepreneurs are characterized by a strong family ties and almost all activities of the entrepreneurs being organized and run by the members of the family. In case there is no skilled worker among the members of the family the owners employ workers from outside, who are mostly appointed from their own clan. It is also found that the combined efforts of members in the family for any productive activity increase the degree of unity, which results in developing close ties and network relationships among workers in the ME systems. Since unity among family members increases trust for each other, the lending organization finds it easy to carryout the exchange functions. It is therefore concluded that the unity among the members or the clan in any micro enterprise develop strong the lender-borrower relationships between the lenders and the borrowers.

'Country Culture' assists in expanding business activities

Country culture mainly relates to basic habits of the rural based micro entrepreneurs, mainly the observance of various cultural functions and ceremonies like birthday, death anniversary, marriage ceremony and other similar functions. The habits may have a base in one societal sector, for example religious system, but have a wider practice of not only being confined to a particular institution or societal sector. These occasions influence the spending habits of the rural people, for example, in that way having both positive and negative effects on the activities of rural based micro entrepreneurs. It is found that due to these cultural functions the demand of the grass-root level business products grows high. This results in the increasing of the production and sales volumes, which ultimately influence the growth of the firm.

'Legal Systems' a problematic and time consuming system

The grass-root level micro entrepreneurs need not to observe any legal procedures to start their business. It is understood from the study that as the relationships of the lending organizations under IFS and grass-root level micro entrepreneurs under MES are of informal in nature. Due to that financing organizations keep a constant contact with the borrowers. This not only makes them active in their productive activities but also punctual and regular in their financial dealings. It is found from the study that to avoid any legal procedure, which organizations within the IFS find time consuming, and sometimes problematic due to the involvement of corruption, trustworthy network relationships are established with customers. This is facilitated by the religious base of the IFS, which increases trust between exchange partners. Similarly micro entrepreneurs

also try to avoid any legal matter, where they build up personal trust with the IFS organizations through intense lender-borrower relationships

‘Political System’ oriented by political unrest and discouraging factors

It is known from the study that the rural based micro entrepreneurs are among the worst sufferers due to the political unrest in Bangladesh. The adverse effect of the political system also creates problems for the lending organizations to properly maintain and supervise exchange activities. Due to strikes and lockouts different micro entrepreneurs fail to keep their commitment to customers to supply goods and also to transport raw materials in due time, which ultimately hamper the establishment of trustworthy relationships. The political system is again related to the country’s legal system. Due to undue influences of the political leaders the legal system sometimes fails to work properly. In such instances the micro entrepreneurs become victims of the both legal and political systems.

‘Government Policies’ causes miseries to micro entrepreneurs

It is found from the study that since the government is solely responsible for policy formulation and its implementation in various sectors of economy the role of the government has direct as well as indirectly affects on the lender-borrower network relationships. The study demonstrates that as the government mechanisms in the country are influenced by the leaders in the ruling political parties, the frequent changes in the government also causes changes in government policies, which results in miseries for many rural based micro entrepreneurs. It is also found that although the government is concerned about the development of the infrastructure facilities for the rural based micro entrepreneurs, yet due to the frequent changes in the government, no remarkable progress has been made to enrich this particular sector of economy since independence. The study also reveals the fact that the financing organizations within the IFS face problems in maintaining proper exchange relations with their customers, since the government policies, like open market operation, export import policies, do not favor these organizations. It is also found that due to the direct involvement of the ruling political party in the government in many cases policies adopted by the previous government for development activities are not materialized by the ruling government, instead new rules are implemented. Thus, it is concluded that the instability in both government and government policies not only affect the lender-borrower relationships but also stand as a major barrier in maintaining stable network relationships between micro entrepreneurs and lending organizations. (Alam, 2006)

9. CONCLUSION

In conclusion it may be said that these days, the interest-free microfinance to rural based micro entrepreneurs is gaining its importance in almost all least developed and

developing nations of the world. It was noted from the study that entrepreneurs regardless of caste, creed and religions are showing their keen interest in borrowing funds from Islamic banks. It is due to the banks' close contact to customers and also for needed guide and advice the banks provide to their clientele. The microfinance being a credit in kind rather than cash and due to that the lending institutions become sure that micro types of credit given to the needy and experienced rural entrepreneurs is being properly utilized. It is also found from the study that all prevailing Islamic banks in Bangladesh are interested in investing towards profit oriented projects rather than to small and micro types of businesses. Once, Islamic banks show their interest in investing a good portion of their savings to this particular sector of economy, it will not only eliminate the rural poverty but also be successful in establishing just and balanced social order free from all kinds of exploitations in the society.

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