

Small Entrepreneurs Finance By Islamic Banks

(An Institutional Network Approach)

Author:

Dr. Mohammed Nurul Alam, Ph.D.,

Associate Professor

Canadian University of Dubai.

WEB-LINK:

SASNET: <http://sasnet.lu.se.asiaportal.info/institutions/department-business-administration-school-economics-and-management-lund-university>

Introduction:

Small entrepreneurs play significant roles in the elimination of the unemployment problem, which remains a serious impediment to a nation's economic growth. Yet nations lacks institutional credit. Now-a-days, many interest-free banks in different countries have started investing funds towards small entrepreneurs sector. These banks usually apply various interest-free modes of finance while giving loans to the small entrepreneurs.

Previous research:

Different studies on a 'Shariah Based Financing', which also known as Islamic banking finance (Nassief, 1989; Alam 2002, 2003; Ahmad, 1994; Ahsan, 1989; Kazarian, 1991; Gathura, 1996; Roula, 1995; Ken, 1994; Parker, 1993; Heffernan, 1999; Khan, 1986; Chapra, 1985, 1970), reveals that the system essentially involves sharing of risk between the owner of capital and the entrepreneurs, as well as sharing the result of the collective efforts. In another way, Islamic banking may be termed as a participatory banking.

INSTITUTIONAL NETWORK MODEL

COUNTRY CULTURE

SOCIETAL SECTOR

P
O
L
I
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C
A
L

S
Y
S
T
E
M

ORGANIZATIONAL FIELDS

RELIGION

O
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H
E
R

E
X
C
H
A
N
G
E

N
E
T
W
O
R
K

SMALL ENTREPRENEURS
SYSTEMS

External Financial Exchange Network

FAMILY/
CLAN

ISLAMIC BANKS AND
OTHER MAJOR FINANCING
SYSTEMS

L
E
G
A
L

S
Y
S
T
E
M

GOVERNMENT

Research Methodology

The research methodology applied in the study is of a qualitative nature (Jick 1979, Merriam 1998, Sherman and Webb 1988, 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. While interviewing respondents at various branches of the IBBL under review , based on Merriam's (1998) 'Interview Structure Continuum', I used highly structured, semi structured and unstructured interviews to suit the respective situation that arose. 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 Islamic bank and their relationships with small entrepreneurs.

Data Collection:

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**
- Used structured and semi structured questionnaires**
- Audio tape recorders were used to record respondents' answers.**
- Questionnaires were prepared taking different issues into considerations such as, lending procedures, bank-customer relationships and also other issues related to small-finance to rural-based small entrepreneurs**
- The recorded tape was replayed and the data was recorded in a spreadsheet.**
- Based on the interviews and respondents information, data was arranged and analyzed from a theoretical perspective.**

The interviews were conducted during March to July 2015.

Means of Customer's Contact

IBBL BRANCHES BRANCH NAME	Personal Contact	Through agents or middleman	Telephone & Fax	Through mail	Through other media
ANDERKILA BRANCH	75 to 100%		20 to 30 %	20 to 30 %	
BAHADDAR HAT BRANCH	80 to 100%	Nil	40 to 50%	20 to 30 %	01 to 10 %
MURADPUR BRANCH		Nil	01 to 10 %	10 to 20 %	01 to 10 %
PATIYA BRANCH	90 to 100% ¹	Nil	20 to 30 %	20 to 30 %	01 to 10 %
SHITAKUNDA BRANCH	75 to 100%	Nil	4 to 15%	20 to 30 %	01 to 10 %
STATION ROAD BRANCH	85 to 100%	Nil		10 to 20 %	01 to 10 %
	70 to 100% ¹	Nil	01 to 10 %		

Extent of the bank-customer relationships

IBBL BRANCHES	Access to bank's senior staffs	Visit of bank staffs to customers	Guide to customers	Assistance in marketing products	Discuss issues other than business affairs
BRANCH NAME			1		
ANDERKILA BRANCH	1		4		
BORODARGARHAT	3			3	4
AHADDAR HAT BRANCH	2	3	1	4	3
MURADPUR BRANCH	1	2	1	4	3
PATIYA BRANCH		1	2	4	2
SHITAKUNDA BRANCH	2	3		3	1
	1	1	1	3	2
STATION ROAD BRANCH					

Note: 1 Always, 2. Very often, 3. Often, 4. Sometimes, 5. Not at all

Moral teachings to customers enhance 'Bai –Muajjal and Musharaka' financing

It is also known from the study that the senior bank staffs in every branch are trained in such a way that they may motivate customers regarding their 'Musharaka' mode of financing. Since this mode of financing mainly based on trust between the bank and the customers the bank advise the customers from the religious point of view for being honest and truthful in conducting business and in maintaining proper business records.

Once a customer delay in the repayment of loans

The study also reveals that, once a 'Musharaka' customer fails to repay the loan in due time, or does not comply with the contract, the bank takes legal actions. Before taking a legal action, in case of default, the bank contacts customers personally. Apart from that, following steps are also taken by the bank.

Inform through correspondences

Influence through persons related to the customers

Influence through local leaders

Influence through guarantors

Problems due to the cultural influences on 'Musharaka' financing activities

The IBBL is basically based on Islamic principles, which aims at making the maximum utilization of savings and proper distribution of wealth. Sometimes social customs, country culture, norms habits of the people stand as hindrances for the realization of these objectives

The role of the government

Almost all senior personnel of the IBBL interviewed in different branches under review opine that the 'Musharaka' mode of financing system is encouraged by the Government of Bangladesh. The government times to time issue circular regarding the credit policy, which the bank finds very much helpful to deal with their clients.

Promote institutional credit facilities for small entrepreneurs

It is observed from the study that the majority of the small entrepreneurs in Bangladesh not only suffer from the shortage of capital but also lacks in institutional credit facilities. The empirical result shows that among the 'Musharaka' mode of financing as an institutional credit facility saves needy small entrepreneurs from the paws of the money lenders who normally charges a higher rate of interest

An easy lending procedure makes small entrepreneurs more organized

It is found from the study that most of the under the 'Musharaka' mode of financing the bank officials assists their customers to be organized who need guidance in their business as well as personal and social life.

CONCLUSION

In conclusion, to answer the findings of the study based on the two research questions addressed in the earlier sections, it may be said that the IBBL yet to succeed in promoting the Interest-Free financing among the small entrepreneurs in Bangladesh.

The number of 'Musharaka' customers as compare to the Bai-Muajjal financing are not up to the satisfactory level compare to the customers belonging to Bai-Muajjal mode of financing.

The customers need to more conscious morally as 'Mushraka' financing is based on faith and honesty of a customer.

Proper disclosures of accounts is a must for 'Musharaka' financing a success

CONCLUSION

Bank experienced dishonesty among customers while determining profit or losses of the business.

Societal sector institutions like the law regulating bodies stand as a barrier in promoting this mode of financing.

Country culture mixed with religious faith compel many small entrepreneurs to spend their borrowed funds in unproductive activities.

SEs become Victims of local political leaders.