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Islamic Sharia-Based Group Microlending Initiative and Implementation Trajectory Experience in Afghanistan

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Abstract - Although some people think the concept of Sharia Law Islamic Banking system is ancient, modernized Islamic Banking has been operating for many decades around the world. Countries such as Bangladesh, Malaysia, UK, Singapore, Pakistan and Bahrain competitively run their Islamic banking side by side with modern commercial banks that are successful in their banking operations and are financially sustainable. However, Islamic Sharia micro financing services are new and rare in the Muslim world although these services can easily help marginalized people to become economic actors in the society and to address the issue of poverty. For example, Islamic Sharia Law Group micro lending initiative and implementation in Kandahar, Afghanistan during 1996-1997 was one of the innovations launched by the author, which was funded and supported by UHCR-Grameen Bank to encourage and upkeep small business development instead of providing only financial aid/relief to Afghan returnees. It was further hoped that the programme success in Afghanistan could lead to a breakthrough in attracting specialized international lending institutions in the overall reintegration process in a country which has long been promoted by UNHCR.

The Afghan political leadership expressed their willingness to invite and support the programme in Kandahar in 1996. They confirmed their position indicating that the programme should be designed following Sharia Law. With the consent of the Political Authority (during 1996-1997), this microcredit project recovery strategy was within the Islamic Sharia principles along with the principles of Holy Quranic interpretations of interest. The project applied Sharia lending principles while implementing the project in Kandahar: (1) Modarebah i.e. profit sharing, (2) Bai-Muajjal (sales under deferred payment), (3) Combination of Modarebah and bai-Muajjal , (4) Murabaha (contract sale), (5) Use terms 'service charge', 'administrative charge' and hyperinflation recovery , and (6) Ijara (leasing/hire purchase). The program was also designed according to the geo-social conditions of the concerned areas in Afghanistan and adequate flexibility was incorporated for providing credit on easy terms and conditions.

Although the loan transactions modalities of this microcredit project were absolutely new to the Afghan people, it drew the attention of most of the villagers particularly the poor beneficiaries within a short period of time. The project gained popularity in the project area where it was run by the Sharia based micro credit services to assist disadvantaged people; however, the project experienced unstable political and economic situations that hindered project operation, management and development. Hence micro financing organizations need work with their own Islamic rational ethical values, norms and principles applied by elites and their legal and political support have been crucial for implementing the Sharia micro financing programs to eradicate poverty not only in the Muslim world but also in any other nation-states.

Keywords : grameen bank, ijara; islamic sharia based financing and banking; mudaraba; murabaha; islamic sharia based microfinancing; and unhcr.

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I. Background of the Grameen type of Microcredit Project in Kandahar (1996-1997)

This paper is about UNHCR funded Grameen Islamic Sharia-based group microcredit project implementation experience in Kandahar in 1996-1997. Moreover, the paper describes Islamic Sharia-based Financing and Banking Scholarships in general and their connection to the adaption of the Islamic micro financing services in order to benefit poor people in Kandahar, Afghanistan.

UNHCR Afghanistan intended to replicate Grameen type group microcredit program in Afghanistan to rehabilitate returning refugees and to address the issue of Afghan acute poverty. Through engagement with the project, Afghan people could find a source of income by using the credit as capital and build social wealth. Afghan people urgently needed such a program because the 32-year-long war had devastated the country. Its physical, social and political infrastructure was destroyed. Majority of people were dislocated. Some people had only one meal a day and some were suffering from malnutrition. Many Afghans were deserting their wives and children because of poverty. There was no formal commercial bank there. Nothing was available except a few basic necessities. Many people wanted to start a business, but there was no capital available to them. Moreover, UNHCR hoped that the success of the Grameen Bank microcredit programme implemented in Afghanistan would be replicated and similar schemes would be introduced in other places of the world, which were dealing with refugees.

The Political leadership expressed their willingness to invite and support the Grameen microcredit replication programme in Kandahar. They initiated dialogue among themselves and confirmed their po-

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sition indicating that the programme should be designed following Sharia law. The delivered credit program 'service charge' would be realised from the borrowers so that in the future relevant expenses of the project could be defrayed from its own source. UNHCR planned to use its credit grant in the future as a revolving fund for the credit program project.

As a follow-up of Afghan Political Authority and UNHCR request, GB prepared a project proposal for Afghanistan in June 1996. For implementing the program, an agreement was signed between UNHCR and Grameen Trust (a sister organization of Grameen Bank), Dhaka in June 1996. The GB Bangladesh two staff was seconded (including the author as Project Director) from GB to work in the project for three years. The project office started its ground work in Kandahar in July 1996. The project hired seven local people to work on the grassroots in Kandahar with the aim that the project would ultimately be run in phases according to Islamic Sharia by local personnel.

Before project inception, a two-member project identification mission comprising of Grameen Bank/-Trust Bangladesh employees, visited Afghanistan in June/July'96 and conducted the feasibility study of microfinancing possibility in Afghanistan. The mission: (1) reviewed the existing Group Guaranteed Lending and Saving (GGLS) projects undertaken by SCF (USA) in Mazar-I-Sharif; (2) assessed the feasibility of establishing microcredit projects in Afghanistan. This team held series of meetings with Taliban authorities, UN/NGOs' representatives, local leaders, and returnees. The mission visited couple of field locations to understand the local situation, culture, values, and attitudes of the people as a whole. The political leadership reiterated their willingness to invite and support the program in Kandahar. The leadership suggested the program to follow Sharia Law which was the common practices of the people in the area. The Governor of Kandahar confirming authorities official agreement (June '96) for Grameen to establish its microcredit program in Kandahar following Sharia law microfinancing. The project director (the author himself), looked into Islamic Sharia financing and banking literatures and programs to get ideas on Islamic Sharia financing system.

a) *Issues and Challenges*

- According to Daud, M., Yussof, I.M. and Abideen, A. (2011), developing new Islamic financial products in compliance with the Sharia is challenging. A uniform regulatory and legal framework supportive of an Islamic microcredit has been experimental. Hence, it was risky to implement the program in an unstable and volatile political arena in Kandahar in 1996-1997.
- There was lack of uniform understanding among political authorities in regards to handouts and microenterprise development through microfinancing to address the issue of returning refugees' repatriation in Afghanistan.
- Microcredit services were time-consuming and labor-intensive. They needed intensive supervision and monitoring. Moreover, the pace of innovation within Islamic Shariah microfinancing modality was slow.
- During the project period there was a hyperinflation of the local currency which was an issue because the microcredit program needed stable currency environment, sound accounting procedures and standards.
- Islamic financing promotes entrepreneurship and risk sharing. So its extension to the poor could be an effective development tool. Since the poor are often exploited by lenders, who are charging usurious rates, microfinance is a key concern for Afghan poor population.

II. Methodology

The paper is written based on the extensive literature review and rigorous consultations with banks, financial agencies and Afghan authorities (Shuras) in the areas of Islamic Financing and Banking in Bangladesh, Pakistan and Iran. The author has also included his own working experience on Islamic microfinancing project implementation in Kandahar.

a) Research Objectives

The objectives of this paper are:

i. To understand the nature of adoption of Islamic Sharia-based microfinancing compared to Islamic general financing particularly in retail banking services in Kandahar.
ii. To determine the factors that affect Islamic banking adoption in Kandahar, Afghanistan
iii. To compare and contrast different factors that affect Islamic Sharia banking services adoption in Islamic general financing and Islamic microfinancing in Afghanistan.
iv. To revisit and analyze the perception, actions and preference of Afghan Authorities in regard to the Islamic microfinancing services in Kandahar.

b) Project Components

The project has two broad components: (1) the lending components, (2) the non-lending components. The lending components include provision of credits to targeted clients for their income generating activities. The non-lending component comprises of: (1) institutional and office development: procurement of equipment, vehicles and furniture, (2) project training, (3) project monitoring and evaluation, (4) clients' basic literacy and numeracy skills development.

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c) Basic Framework and Basic Instruments in Islamic Financing

Risk sharing is the basic principle of Islamic investments. Because interest is prohibited, suppliers of funds become investors instead of creditors. The provider of financial capital and the entrepreneur share business risks in return for shares of the profits. Basic Instruments of Islamic Financial markets offer different instruments to satisfy providers and users of funds in a variety of ways: sales, trade financing, and investment. Here Islamic financing basic instruments include cost-plus financing (murabaha), profit-sharing (mudaraba), leasing (ijara), partnership (musharaka), and forward sale (bai' salam). These instruments serve as basic building blocks for developing a wide array of financial instruments. Furthermore, there is great potential for financial innovation and expansion in Islamic financial markets. However, it demands social justice, where borrowers and lenders share rewards as well as losses in an equitable fashion, and that the process of wealth accumulation and distribution in the economy is fair and represents true productivity. Specialized Islamic banks have been well positioned to attract deposits from Muslims, but these institutions have generally lacked the technical ability to invest efficiently, whereas Western banks are reaching out to investors directly and eliminating the middleman.

d) Islamic Sharia Scholarships with Regards to Islamic Financing and Banking

Islamic Sharia financing and banking scholarships are described below. Sharing either a loss or gain in a financial transaction is a fundamental principle of Sharia compliance. Islam forbids simply lending out money at interest (riba), Islamic rules on transactions (known as *Fiqh al-Muamalat)* have been created to prevent this perceived evil. The basic principle of Islamic banking is based on risk-sharing which is a component of trade rather than risk-transfer which is seen in conventional banking. Islamic banking introduces concepts such as profit sharing (*Mudharabah*), safekeeping (*Wadiah*), joint venture (*Musharakah*), cost plus Murabahah, and leasing (*Ijara*). There are some interest-free financial institutions established in Bangladesh, Malaysia and Bahrain, which have a new dimension to economic models widely known as Islamic banks. These interest-free institutions are organized financial intermediaries which operate in accordance with Islamic Law (Shariah Law) (Iqbal et al., 2007; Kabir, H. and Mervyn KL., 2007); (Mirakhor, 2000; Haque et al., 2007). The main principles of these Islamic banking institutions' activities comprise of prohibition of interest or usury (riba) in all forms of transactions, undertaking business and trade activities on the basis of fair and legitimate profit, giving Zakat (tax), prohibition of monopoly, and cooperation for the benefit of society and development of all halal aspects of business that are not prohibited by Islam (Haron, 1997; Mirakhor, 2000). Unlike conventional banking system, the Islamic banking system promotes profit-sharing in all conduct of banking businesses (BNM, 2007).

Islam allows emergency relief to face crisis period, but not for permanent means for the poor rehabilitation. Although many Islamic religious leaders, Islamic philanthropic groups and agencies have been asking for Sadakah, relief and Fitra (donation) and soliciting donations for rehabilitating the poor and their livelihoods, Islamic scholars have been insisting that social and economic justice could be established in communities even in nation-states by applying varied Islamic monetary and financial services (Metawa and Almossawi, 1998). However, all banking policies, services and operations should include transition deposit, lending products and services must be in accordance with Sharia values (Abdullah et al., 2012). Mirakhor (2000) believed that operating business on legitimate profit basis, prohibition of loan interest (riba) in all banking services and expanding halal business (no Alcohol, Drugs, Gambling, Pork food) are the key to Islamic banking and economic activities. It is necessary to keep away from all financial businesses that are known as sinful and socially irresponsible activities in Islam. Islam permits banking lending services to businesses where the lender (bank) and the business capital receivers both share the risk of the businesses rather than pre-determined profit and loss sharing by different funds suppliers (banks and funds receivers/-entrepreneurs). Islam strictly prohibits gharar - risk taking avoidance to establish social and economic justice in financial and banking process and to avoid exploitation of the two parties regarding financial transactions. Islamic Banking Scholars believed that Islamic Finance System enhances economic stability, promotes and encourages welfare oriented business projects, poverty alleviation and stable socially justified financial services in the community (Ahmad et al., 2011).

e) Islamic Financial Transaction Terminology

There are many financial transitions and terms (Kabir H. and Lewis, M, 2007) that are used based on transaction modalities mentioned below:

i. Bai' al 'inah (sale and buy-back agreement)
ii. Bai' bithaman ajil (deferred payment sale)
iii. Bai' muajjal (credit sale) it is a form of murabahah *muajjal*
iv. "Mudarabah" is a special kind of partnership where one partner gives money to another for investing it in a commercial enterprise. The first partner is called the "rabb-ul-mal", while the other party is called the "mudarib".
v. Murabahah: Refers to goods sale at a price with a profit margin agreed by both parties.
vi. Hibah (gift): Islamic banks voluntarily pay their customers a 'gift' on savings account balances,

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representing a portion of the profit using savings account balances.

vii. Istisna (manufacturing finance): It is a finance to construct a building by availing finances in installments for each slab of construction. Istisna helps use of limited funds to develop higher value goods/assets in different stages /contracts.

viii. Ijarah thumma al bai' (hire purchase): Parties enter into contracts to form a complete lease/ buyback transaction. The first contract is an *Ijarah* that outlines the terms for leasing or renting over a fixed period, and the second contract is a *Bai* that triggers a sale or purchase once the term of the Ijarah is complete.

ix. Ijarah-wal-iqtina: Ijarah means lease, rent or wage. Here parties share loss or gain in a transaction, based on their percentage of ownership. It is a contract under which an Islamic bank provides equipment, buildings, or other assets to the client against an agreed rental together with a unilateral undertaking by the bank or the client that at the end of the lease period, the ownership in the asset would be transferred to the lessee.

x. Musharakah (joint venture) *Musharakah* is a relationship between two parties, and divide the net profit and loss between two parties. This is often used in investment projects, letters of credit, and the purchase or real estate or property. The profit is distributed among the partners in pre-agreed ratios. This concept is distinct from fixed-income investing (i.e. issuance of loans).

xi. An innovative approach applied by some banks for home loans, called *Musharaka al-Mutanaqisa*, allows for a floating rate in the form of rental. Here the bank and borrower form a partnership entity, both providing capital at an agreed percentage to purchase the property. At the same time, the borrower in the partnership entity buys the bank's share of the property at agreed installments until the full equity is transferred to the borrower and the partnership is ended.

xii. Qard hassan/ Qardul hassan (good loan/-benevolent loan): This is a loan extended on a goodwill basis, and the debtor is only required to repay the amount borrowed.

xiii. Sukuk (Islamic bonds): financial certificates. Here fixed-income, interest-bearing bonds are not permissible in Islam.

xiv. Bai-Salam: It is forward sales. Transaction of buy and sell of goods using order method with specified requirements and full cash payment in advance. After receiving the money, sellers send money to the purchase who ordered business items. Here bank shall act as the provider of fund in the Salam transaction with customers.

xv. Takaful (Islamic insurance) *Takaful* is an alternative form of cover that a Muslim can avail himself against the risk of loss due to misfortunes. The Islamic prohibition against transactions that involve gambling products. Islamic insurance, called *takaful*, is based on a model of risk management that involves shared risk and mutual responsibility.

xvi. Wadiah (safekeeping): A person deposits funds in the bank and the bank guarantees refund of the entire amount of the deposit, or any part of the outstanding amount, when the depositor demands it.

xvii. Wakalah (power of attorney): This occurs when a person appoints a representative to undertake transactions on his/her behalf, similar to a power of attorney.

xviii. Requiring Zakat: To promote justice related to the distribution of wealth, Islam imposes a property tax called Zakat. Every Muslim who meets certain criteria regarding the accumulation of wealth must pay Zakat, which is distributed to people in need. Islam promotes the socially responsible distribution of wealth.

xix. Zakat management is part of the Islamic finance field, and zakat calculation is a separate, specialized field of study.

f) Ethics of Islamic Financing and its Comparison with Conventional Financial System

The basic framework for an Islamic financial system is a set of rules and laws, collectively referred to as Shariah, governing economic, social, political, and cultural aspects of Islamic societies. The prohibition of interest (riba) and guaranteed rate of return is based on arguments of social justice and equality. Islam encourages the earning of profits but forbids the charging of interest because profits and determined deposit symbolize successful entrepreneurship and creation of additional wealth. The Islamic Sharia system promotes entrepreneurship, discourages speculative behavior, and emphasizes the sanctity of contracts. There are many reasons prohibiting interest of loans: (1) To promote social justice, (2) To encourage shared risk in financial transactions between investors and investees, and (3) To avoid Maysir- gambling: Maysir- the acquisition of wealth by chance and not by effort and Qimar-in modern gambling, any game of chance. Both types of transactions are prohibited because they're based on uncertainty (*gharar*) (Iqbal, 1997). So any investment in businesses dealing with alcohol, gambling, and casinos would be prohibited.

Islamic Shariah is also supported by other principles of Islamic doctrine advocating for individuals' rights and duties, property rights and the sanctity of contracts. However, the conventional financial system focuses primarily on the economic and financial aspects of transactions; it creates financial crisis in the society, but the Islamic system places equal emphasis on the

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ethical, moral, social and economic justice, and to enhance equality and fairness for the public goods as a whole. Likewise micro credit is ideologically compatible with Islamic Shariah finance compliancy and can possess a sizeable potential market.

g) Malaysia, Bangladesh and Bahrain Islamic Banking

Over the past four decades, Islamic banking emerged as one of the fastest growing industries, at an estimated growth rate of 15-20 per cent per annum (Haque et al., 2007) in Malaysia, Bangladesh and Bahrain. It has spread to all corners of globe and received wide acceptance by both Muslims and non-Muslims (Aziz ZA, 2006; and Rehman, A. and Safwan, N. (2011). The Malaysian government has a strong Islamic banking industry capturing 20 percent of the market share from the Malaysian financial industry by 2010 (Aziz ZA, 2007). However, such initiatives are rare in the Muslim world.

The Malaysian Tabung Hali, (the Pilgrim Management and Fund Board), was established in 1963 in Malaysia (Makhtar et al., 2008) encouraged people to get involved in economic activities in the community. Bank Islam Malaysia Berhad', a full-fledged Islamic bank was established in1983 under the Banking Act1983. Bangladesh Islamic Bank also started its Islamic banking operation from 1983. They have followed interest free banking within banking sector. As of 2007, the Islamic banking in Bangladesh captured market share of 29 percent, 30 percent and 28.5 percent in terms of Islamic assets, financing and deposits respectively Bangladesh Islami Bank annual Report (2007). It has 41.77% local and 58.23% foreign shareholders. With 276 branches and staff of 11,465, IBBL is the largest private banking network in Bangladesh (Bangladesh Islami Bank Annual Report, 2007). Its many social welfare projects in Bangladesh include: Islami Bank Hospitals, Islami Bank Crafts & Fashion Houses, Islami International School and College and Physiotherapy and Disabled Rehabilitation Centre.

The market share of Malaysian Islamic Bank assets, deposits and financing as of year 2008, stood at only 15.4 percent, 14.02 percent and 13.96 percent of the industry's total, despite being in operation for the past twenty five years (Aziz, ZA (2006). Undoubtedly, it is a growing market but the growth is slow compared to Bahrain and Bangladesh, both of which already have exceeded 20 percent of market share in terms of assets, deposits and financing.

Now Malaysia and Bangladesh are known as international Islamic banking and financial central actors where the governments of these countries have supported their Islamic banking system (Khattak and Rehman, 2010). However, their growth has been constrained by lack of innovation (Mirakhor, 2000; Asyraf et al., 2007). Innovation is the key to sustainable and competitive marketing advantage which could ensure the future growth of Islamic financial markets. Failure to provide the full range and right quality of products as per customers' need may defeat their existence and they won't be able to stay competitive in the banking industry. To compete with the modern banking, the development of financial products and services are to be in accordance with customers' requirements which are essential for Islamic banks in order to remain competitive in the banking industry (Thambiah et al., 2011a). Moreover, Sharia micro-financing is necessary to finance people at the bottom of society who are absent from the business enterprises in many countries.

Bahrain which entered into Islamic banking in 1978 (Bahrain Islamic Bank), has emerged into a leading Global Islamic financial centre in the Middle East (Bahrain Annual Report (2007). Today Bahrain has the highest concentration of Islamic financial institutions than any other country. There are 24 Islamic banks and it has successfully captured, market share of 32 percent in terms of assets, 29 percent in terms of financing and 37 percent of deposits, respectively (Bahrain Annual Report (2007).

Although many Islamic and Non-Islamic countries (Bangladesh, Pakistan, Malaysia, Bahrain, Singapore, UK, USA, Australia and Canada introduced Sharia based Islamic banking, financial services in the world and become gain popularity in institutional financial sustainability along with community public goods (Amin, 2007), it needs research for innovation and to improve custom based Islamic manual and e-financing because the process of globalization and liberalization together with digitalization has fueled the intensity of business competition today.

h) Group Microlending Experience in Afghanistan

Author describes below his experience in the course of replication of Grameen type microcredit in Afghanistan. Political Authority (Shura) approved program: With their concurrence and the experience of Bangladesh Islamic Bank, Faisal Bank and Muslim Commercial Bank of Pakistan, Tejarati Bank of Iran and those of Afghanistan, the project prepared outlines of a credit program incorporating therein the essential elements of Islamic Sharia. The program was designed keeping in mind the geo-social conditions of the concerned areas of Afghanistan and adequate flexibility was incorporated for providing credit on easy terms and conditions. The Governor of Kandahar was briefed in depth about the proposed rural credit program. He gave his approval for introducing of the credit program under Morabath system. The project staff listened to villagers and shared their woes and happiness, sitting with them every now and then.

The Project Director (the author) conducted a series of meetings with political authorities (Shuras) and UNHCR officials both in Islamabad and Kandahar on the

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modalities of the program. He discussed Sharia-based group lending program strategies with the Taliban authorities. The political authorities watched the project activities closely and keenly. They saw the designed printed forms, registers, ledgers, and passbooks both in English and Persian. The Governor of Kandahar approved the Sharia-based group microlending strategies (Muzarebath and Mudarebath System). The project provided credit to beneficiaries in kinds not in cash. The Grameen staff proved their strong commitment and dedication towards the implementation of the innovative Islamic Sharia group micro lending project there.

i) The Project Operation was Designed According to Islamic Sharia Principles

The project recovery strategy was within the Islamic Sharia principles along with the principles of Holy Quranic interpretations of interest and its condemnation. The following methods applied for implementing the project in Kandahar:

i. Mudarebah i.e. profit sharing: Under this method the project provided loans to the clients to invest in the income generating activities in the following terms: administrative and management cost carried out by the Mudareb i. e. entrepreneur, the project shared in the profit according to mutual terms of agreement.
ii. Basi-Muajjal (sales under deferred payment): These were sales under deferred payment system. The modus operandi was the project that financed the purchase of specific commodities and added reasonable mark-up on them. They were sold to the buyer and payment installments were made weekly. This allowed the scope to add inflationary loss in the mark-up so that the value of original loan money was protected.
iii. Combination of Modarebah and bai-Muajjal: Here the project purchased business commodities and sold them to the buyers (borrowers) with mutually agreed (project and clients) share profit.
iv. Murabaha (contract sale): The salient features were that the project purchased commodities and goods for the clients that they listed and requested for their businesses. The total cost of the goods included the duties, taxes, transportations over and above the purchase prices, price fixed at an agreed rate where there is a profit included. Business goods delivered mutually decided time and place.
v. Use of terms 'service charge', 'administrative charge' and hyperinflation recovery: The project did not use the terms interest and fixed rate profits return by clients of the project.
vi. Ijara (leasing/hire purchase): This is a leasing (hire purchase) system. Here the project owns products and leases the machinery to clients for use under specific terms. Clients use the leased products and repay costs of the items in agreed installments. Here the project markup for recovering the products service costs. After completion of the installment repayment the leases became the owner of the machines.
vii. The project had planned include the Takaful (Islamic insurance) component to project clients during the second year of the project. However, the project received closure notice at the end of its first year. So, Takaful product was not practiced by the project in Kandahar.

The project introduced the credit program in Kandahar according to the following Sharia criteria: In order to protect the project from inflation, credit was disbursed in Pak rupee because Pak rupee currency used in Afghanistan. Credit was provided according to Murabath system which is consistent with Sharia. The project bought business items from sellers and delivered business materials (purchased cows, sheep, poultry, sewing machines, cycle repairing parts, padding of goods, materials of embroidery works, materials of carpet waving, purchase and sale sheep, bakery materials, fruits and vegetables, groceries items, crop production items except poppy and tobacco cultivation, fruit gardening, etc.) to the beneficiaries. It was done after providing related training on group based Muzarebath and Mudarebath financing system which was labour intensive and time consuming and therefore only disbursing cask money loans to the clients. Profit was distributed among the borrowers after repayment of principal at the end of the year or every month with the principal. The project was introduced to a group of five male individuals through mutual consent and Group Savings. The clients paid instalment of loan and savings in the weekly centre meetings. Realization of inflation subsidy @2% was built-in. The project practiced recites Holy Quran at the beginning of centre meeting and offer Munajat at the end of the meeting.

The project had quick disbursement of credit imparting simple training to the members. The program was reviewed daily and improved accordingly after taking into account the opinions, proposals and credit requirements of the people of the village. Exchange visits were organized for improvement of professional knowledge of the clients. If any member left the group, he could take his share of Group Fund savings after adjustment of loan.

j) Project Disbursed Microloans

The project worked for six months. Within this period, the project operated in 11 villages within 15-20 m=Km radius of Kandahar City. The project staff conducted mini-meetings in villages and group training was undertaken at Yakariz, Gaskhana, Mirbazar, Abassabad, Goskhana, Laowala, Dabaropool, Tarukuzamea, Rajiklacha, Charbahar, Malajat, Khandak,

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Masburabad etc. villages of Kandahar area. Twenty groups were recognized. Fifteen group trainings continued. A total of 100 beneficiaries received loans amounted $20, 000. Average loan size was $200. The project borrowers agreed to pay their profit at the end of the term of loans if there were any. Clients asked for minimum of USD$ 200 loan as that amount was necessary to start a business. The repayment rate was 100%.

During the project period no microcredit program existed in the world that followed Islamic Shariah principle. Hence the project design and implementing strategies were new to the project staff. Moreover, although the loan transactions modalities of the micro-credit project were absolutely new to the people, it drew the attention of most of the villagers particularly the poor beneficiaries within the short period of time. In a few days, the Grameen Bank activities were broadcast through Afghan radio and publicized in news including local papers. The general public from Kabul, Herat, Ghazni, Helmon, Kundus, Jabul, Mazar-e-Sharif requested verbally and in writing to introduce the micro-credit project in those areas. People started approaching Grameen project office and UNHCR Sub office at Kandahar for possible loan by inclusion of their villages under Grameen project coverage. The project management along UNHCR reviewed the program and took careful move towards the implementation of the program in Afghanistan. However, the group of the political people, religious people and many rural elites were suspicious when the program recovered money on a weekly basis against the loan. They misinterpreted business profit collection as 'interest' which is strictly prohibited under Sharia–law although the project financing operation followed Muzarebath and Mudarebath.

k) Political Authorities Turn Hostile and Directed to Stop Microcredit Activities in Afghanistan

The disbursement of 100th borrowers credit to a group of 20 was scheduled for February 18, 1997, when the political authorities notified the project to stop the program and started a malicious propaganda offensive against project staff. Their attack included the following reasons: (1) The project was preaching Christianity in Kandahar area as it is being done by Grameen Bank in Bangladesh; (2) Even though earning profit was permissible (Jayez) according to Murabah system, some political authorities considered it as interest and therefore, forbidden (haram). Although the project had provided materials according to Murabah system, they made propaganda that the project paid cash money; and (3) Failure to employ Taliban staff from the beginning. They also claimed that despite the project started working with the male groups, in future women would be included. When the project management came to learn about these unfavourable developments, it tried its utmost to give the concerned political authorities again a clear picture of microcredit program in Kandahar and Bangladesh. At one point of negotiation they agreed to send Political authorities' delegation to Bangladesh to verify the issue.

UNHCR took the initiative to arrange a visit to Bangladesh a by political authority team in order to have an on-the-spot idea about Bangladesh Grameen Bank. The political authorities continued their own investigation on the allegation, but they did not find anything wrong with the project that goes against Sharia law loan financing or anti-Islamic activities in Bangladesh. However, the political authorities declared closure of the Grammen Program in Kandahar with the allegation of Grameen involvement of faith changing preaching even in Bangladesh, which was not the case. UNHCR invited again the authorities to review their decision in view of the importance of the program in Afghanistan, but turned to opposite face.

l) Political Authorities Volt Face

Suddenly the Governor of Kandahar informed (wrote a letter) the project including UNHCR on May 07, 1997 that there was a negative reply signed by the Governor. The letter read "*The issue of the Bank has been announced by Shura that they have to relocate, because of some problems of Afghanistan. So I expect you please inform Grameen Bank to relocate their office from Afghanistan*". It was very disappointing to the project and to UNHCR. It was observed by the project and UNHCR that Taliban authorities had other top priorities and were less concerned about the public good and the micro-financing activities.

m) Last Bid to Save the Program

On May 10, 1997, Chief of Mission of UNHCR met again the Governor of Kandahar and asked him the reason to close Grameen Bank Office. Governor responded that he came to know that in Bangladesh 42, 000 women had divorced their husbands. This was because Grameen Bank had empowered the women. After several meetings with Political Authorities in Kandahar, it was found out that there was something wrong. Shura didn't have the project as a priority. Afterwards UNHCR and GB decided to close down the project and return GB seconded staff to Bangladesh.

n) Behind the Scene Activities and Propaganda

One of the Political authorities central said that if entire Grameen Bank program fund was handed over to them, they would utilize it for electricity production and distribution. During project period 1996-1997, the political authorities were busy to capture the whole of Afghanistan, they were busy with warfare for defeating their enemies rather than improve the life of poor Afghans through development activities, and to make all out efforts to that end, to push back their enemies. Besides this, the political authorities were divided into

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two camps - one supporting Grameen Bank program and the other opposing it. Moreover, the project accountant had the impression that the local people were influenced by the political authorities and thought that if Grameen Bank credit program was successful in Afghanistan; the aid program of UN agencies would shrink rapidly.

o) Project Banking Challenges

Kandahar is the base of hard core political authorities (Shuras) during the project period 1996-1997. Hyperinflation was threatening the project. Also, it had to make purchases from Pakistan. The Kandahar shops could not provide with cash memo/vouchers; there was no printed cash memo. Most of the shop owners were illiterate. It was time consuming to go to Pakistan and many formalities were involved. As there were no banking facilities in Afghanistan, it was not possible for the project to open a bank account in Kandahar. The project had to keep large amount of cash in hand. The project also had to keep three currencies (Dollar, Rupees and Afghani.), which was risky. Besides, there were different rates of Dollar, Rupee and Afghani in the foreign exchange market which fluctuated widely. For instance, on January 01, 1997, USD$1 fetched 22000 Af and next day the rate was 25000 Af. Under those circumstances, the account was maintained in one currency by adjusting the rates. The project was very cautious against hyperinflation in Kandahar. The project recorded inflationary loss reserve (ILR) for hyper inflationary situation, applied Morabaha as a regular cost-recovery method and Modarebah to offset the inflationary erosion of the local currency.

III. Conclusion

The project started work inspired by the bold initiative taken by UNHCR and Grameen Bank to assist the poor rural Afghans hit hard by the civil war through the micro credit program. The project had worked in Kandahar with a challenging mode. People at large in the villages spontaneously accepted the program and showed their keen interest in receiving credit. UNHCR and the project tried its best to keep close and cordial relationship with high ranking political authorities' officials. It made it clear that social benefit was obvious to the micro entrepreneurs in Kandahar. The project laid a strong foundation for the project which has been acknowledged by Chief UNHCR. However, the project concluded that Islamic Sharia based microfinancing successful implementation depends on both legal support of Islamic Sharia lending services and political authorities' good will commitment.

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