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Islamisation Of Microfinance: A Case Study Of Maldives

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ABSTRACT

Maldives is a hundred per cent Muslim country that lies in the heart of the Indian Ocean. It has a unique geography consisted on 1,190 islands forming 26 natural atolls spreading over 900 square kilometer. The population of the country is just around 300,000. Maldives is ranked 100 out of 178 countries on the Human Development Index, and is classified as a country with medium human development. The biggest economic challenge in Maldives is to distribute the income evenly to all parts of the nation. It is, thus, difficult to develop all the inhabited Islands scattered across the archipelago due to lack of transportation facilities. The capital of Maldives, Male' is the only island that has been developed in terms of health, education and infrastructure. The rest of the nation is still developing at a slow pace. Microfinance is the only type of development tool to the Island population. The nation is alien to Islamic finance until early this year. Though Islamic banking is introduced in the country, the benefit of the bank is only enjoyed by the people in the capital. The rest of the population is left with bare minimum or without any type of modern banking facility. Hence, the only source of development capital is the capricious periodic disbursements for target areas by foreign aid agencies in collaboration with the government. The problem with the microfinance facility in Maldives is that it is based on the conventional structure. The objective of this paper is to suggest ways to Islamize microfinance in Maldives and to shed light on the benefits that the Maldivians could enjoy by using Islamic microfinance. In the course of doing this, the paper explores the potential sources to raise capital for microfinancing in Maldives. It is anticipated that the outcome of this paper would also supplement efforts by other geographically dispersed low-lying island nations.

Key words: Maldives, Microfinance, Islamic Banking, Indian Ocean, Low land Island Nations

Introduction

Maldives is a small island nation with a population of around three hundred thousand people. The people of Maldives are called Maldivians and the country is a hundred percent Muslim nation. When we say Maldives, it means thousand of small islands, just about 1.5 meters above sea level, scattered in the sea, detached or semi-detached from each other. Hence, the geographical distribution of Maldives is unique in its nature.

The population of the country is distributed unevenly. It is estimated that 36% of the population lives in Male', while the rest of the population are distributed among 200 other inhabited islands (Statistics Year Book of Maldives, 2010). The only area in the nation that has prospered in all the general sectors is the capital. Hence, the population from the islands have been migrating to the capital Male' to enjoy the developed health, education and economic facilities. This has made Male' the most populated part of the country. Sinha (2009) says that one-third of the total population of the whole country lives in Male'. The development of the other islands is at a slow pace mainly due to lack of financial resources. The government is unable to give them adequate financial resources and the islanders are at the mercy of the foreign aid. Most of the schools, hospitals and harbors built in these islands were built through these foreign aids.

At an individual level, the islanders face a lot of challenges in their small islands. They do not have white collar job opportunities. The only option available for them is to adopt farming or fishing or go and work in the nearby resort islands. Due to the Tsunami of 2004, many islanders lost their homes and everything they built or saved over a lifetime. Up until now, their conditions have not adequately improved even to the status they were before the Tsunami.

In the pre-Tsunami projects, some of the aids given by the foreign institutions to Maldives were disbursed to the islanders as micro-credit loans to develop their individual businesses. Some of these loans were targeted for the development and empowerment of women. But after the Tsunami, the focuses of the aid were to help the Tsunami victims to stand up on their feet. Most of the aids were given to fulfill the basic necessities of the Tsunami victims.

In Maldives, there is no proper microfinance institution, but microfinance has been and is being given to the islanders through the government of Maldives by the foreign aid agencies. But this process is not a lifelong solution as the government and the people always have to wait for the voluntary aid.

This description about the Maldivian microfinance system is just the tip of the ice berg. To fully digest the situation, it is imperative to understand the facts about the Maldives and the development status of the country. Furthermore, it is also vital to see the mechanism in which the microfinance is offered in Maldives. Then only the potential of Islamic microfinance in Maldives would be realized. It is hoped that this paper would provide a ray of light for Islamic microfinance in Maldives.

Literature Review:

There was a time in the recent past when Maldives could not be seen on the world map. It was too small and least insignificant. But today, at least the country could be seen in the world map. The small dots that are seen just left of India and Sri Lanka in the world map is Maldives. It is hard to find literature on any issue related to Maldives except the newspapers and the reports made by foreign organizations on the matter. Hence, doing qualitative research on the subject matter is definitely a challenge.

A poverty assessment conducted by the Asian Development Bank (2007) is a helpful research to evaluate the poverty level in Maldives. This research shows the poverty level in Maldives after the Tsunami and the figures found in the report are indeed useful to contemplate the current situation of the country. The report expressly states that “formal surveys of poverty in the Maldives are less than a decade old” (Asian Development Bank 2007).

The most relevant and recent piece of work that could be found on microfinance in Maldives is a report prepared by Sinha (2009) on state of microfinance in Maldives. This is the only comprehensive literature that could be found on the matter. Hence, throughout this paper, heavy reliance is made on the facts mentioned in this report.

Hassan & Zulaikha (2002) is another piece of work that has been written before the Tsunami that shed lights on the microfinance situation of the country before the Tsunami catastrophe.

Other than these, there are no literatures that could be directly made relevant to the subject matter of this paper. This might be a surprise for some, but Maldives is a small nation where academic study and research is not carried out often or at all on some areas.

Methodology:

This paper is mainly based on qualitative research. Reliance on official statistical data and country studies on Maldives has been made to make the research worth and accurate. Extraction of these materials facilitated to come up with the ultimate result of this research.

Financial Sector of Maldives:

It is imperative to comprehend the structure of the financial sector of Maldives for a better understanding of the context of the country. The diagram 1 illustrates the existing structure of the finance sector of Maldives.

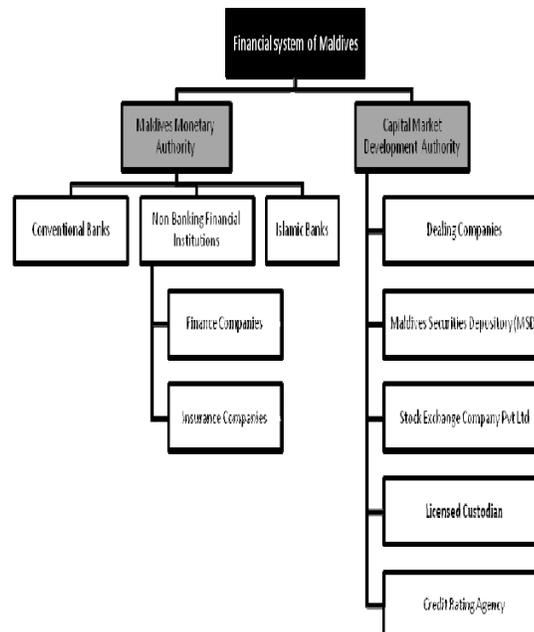


Diagram 1: Existing Structure of the Finance Sector of Maldives

The regulatory aspects of the financial sector of Maldives are divided between two authorities. The Maldives Monetary Authority (MMA) is the Central Bank of Maldives and by virtue of the Maldives Monetary Authority Act 1981 MMA has the lawful authority to regulate the banking sector and non-banking financial institutions operating in Maldives. Furthermore, Islamic Banking Act 2011 of Maldives designates MMA as the regulator for Islamic banks operating in Maldives. The point that is worth noting here is that the banking and the non-banking financial institutions in Maldives are few and their role in the overall economy is also limited. The diagram 2 would illustrate the banking sector regulated by MMA.

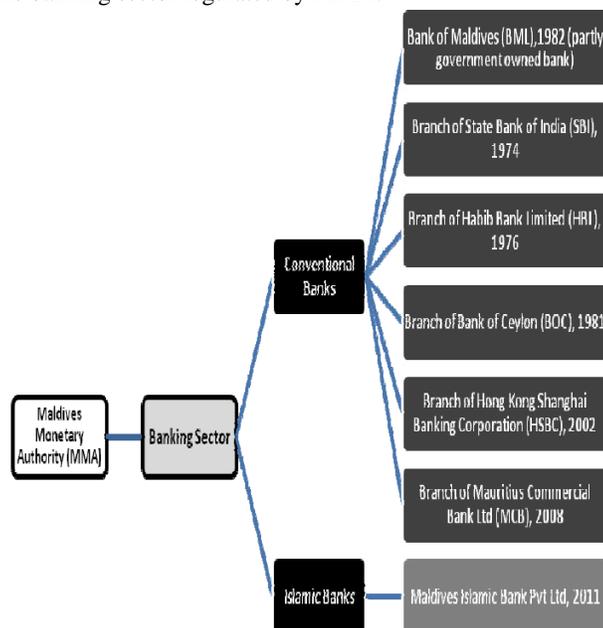


Diagram 2: Banking Sector Regulated Under MMA

The financial system of the country is accessible only to people in Male'. But in the 1990's, a development project was initiated to extend formal banking to the far off atolls by establishing a Development Banking Cell (DBC) established within the Bank of Maldives (BML). DBC was set up within BML as a separate legal entity with financial autonomy to undertake various development projects with funding from IFAD and UNDP. The main objective of this is to reduce the income disparity between Male' and rest of the country by increasing the employment opportunities, income level of outer atoll population (Annual Report of Bank of Maldives, 2010). The National Bank of Maldives, Bank of Maldives Plc, a conventional bank has made attempts to provide access to other islands. This attempt is quite successful as now the islanders or the rural population of the nation is able to use the bank to deposit their money, though the modern banking investment facilities are unavailable to them. The table 1 illustrates the details of branches established by the Bank of Maldives in Islands.

The Bank of Maldives is a conventional bank that deals with interest (*riba*). It is unfortunate that the national bank of a hundred percent Muslim country is a conventional bank and all microfinancing schemes undertaken by the government are disbursed through this Bank. The Finance Act, 2006 compels the DBC to manage the credit component of all international and bilateral programs as the Act states that any financial intermediation of the government shall be done through banking system and it calls "targeted credit" for all credit provided under these programs. Currently, the only bank in Maldives that is operated in the islands other than Male' is Bank of Maldives as it has 25 branches in the main islands of Maldives with a total of 37 ATMs in Maldives.

Maldives and Poverty:

Before poverty in Maldives is discussed, it is imperative to understand the geography of the country. Then only the real situation of the country could be understood. One way in which Maldives has been described is as follows:

The 1,190 islands that make up the Republic of the Maldives are grouped into 20 natural atolls that together form a chain 820 kilometers in length and 130 kilometers at its widest point, set in an area of more than 90,000 square kilometers of the Indian Ocean. No fewer than 197 of the islands are inhabited, and all are very small. Only 33 inhabited islands have a land area of more than 1 square km and no fewer than 75 islands—more than

one-third of the total—have less than 500 inhabitants, while 100 islands—50% of the total—have less than 1,000 inhabitants. This gives the Maldives a geography that is challenging, even by the standards of small archipelagic states (Asian Development Bank 2007).

The above description of Maldives reflects the reality of Maldives that could not be seen and found even if someone visit the country or even live in the place. These facts would only be unraveled if one travels around the whole country. And this may take arduous as transportation is largely done by sea. Airplanes could only land in few islands. For the author, this description of Maldives provided by foreign consultants is precise to understand the situation of the country. The table 2 illustrates the number of inhabited islands in Maldives by the size of the population for some selected years.

Table 1: Branches Established by the Bank of Maldives

11 November 1982	Main Branch and Head Office	Male'
01 December 1983	Gan Branch	Seenu Atoll
29 December 1984	Majeedhee Magu Branch	Male'
29 December 1987	Bazaar Branch	Male'
26 June 1990	Naifaru Branch	Lhaviyani Atoll
29 December 1991	Kulhudhuffushi Branch	Haa Dhaalu Atoll
16 January 1993	Fonadhoo	Laamu Atoll
17 January 1994	Hithadhoo Branch	Seenu Atoll
10 October 1994	Muli Branch	Meemu Atoll
30 October 1994	Thinadhoo Branch	Gaaf Dhaalu Atoll
23 November 1995	Fuvahmulaku Branch	Gnaviyani Atoll
30 November 1997	Villingili Branch	Gaaf Alif Atoll
20 August 1998	Male' International Airport Branch	Hulhule
11 March 2001	Dhidhdhoo Branch	Haa Alif Atoll
09 October 2003	Villimale' Branch	Villimale'
12 October 2003	Hulhumeedhoo Branch	Seenu Atoll
15 October 2003	Ungoofaaru Branch	Raa Atoll
03 April 2005	Hulhumale' Branch	Hulhumale'
11 May 2006	Eydhafushi Branch	Baa Atoll
04 September 2006	Mahibadhoo Branch	Alif Dhaalu Atoll
04 September 2006	Rasdhoo Branch	Alif Alif Atoll
07 September 2006	Kudahuvadhoo Branch	Dhaalu Atoll
09 September 2006	Manadhoo Branch	Noonu Atoll
26 April 2007	Funadhoo Branch	Shaviyani Atoll
16 August 2007	Veymandoo Branch	Thaa Atoll

Source: Website of Bank of Maldives

Table 2: Number of Inhabited Islands in Maldives by the Size of the Population (1985, 1990, 1995, 2000 and 2006)

Size class (population)	No. of Administrative units (islands)				
	1985	1990	1995	2000	2006
Size	202	202	201	200	194
Less than 100	2	1	1	0	5
100 - 199	17	13	11	11	11
200 - 299	29	20	10	15	18
300 - 399	39	30	26	22	18
400 - 499	30	25	27	28	20
500 - 599	19	24	23	19	18
600 - 699	13	19	16	14	12
700 - 799	10	14	16	12	11
800 - 899	6	7	9	13	12
900 - 999	12	8	11	8	6
1,000 - 1,999	17	31	38	42	47
2,000 - 4,999	6	7	9	12	12
5,000 - 9,999	1	2	3	3	3
10,000 +	1	1	1	1	1

Note: R.Kandholhudhoo, M.Madifushi, Dh.Gemendhoo and Th.Vilufushi people were displaced to other islands due to tsunami

Source: Department of National Planning

The above table clearly shows how small the populations of the islands of Maldives are and how unevenly the islands are populated. Hence, we can see the truth of the above quotation taken from Asian Development Bank (2007).

Maldives is not a developed country. It is still considered as a least developed country (LDC). However, Maldives was supposed to graduate from an LDC to a 'developing country' by December 2010 (Rafeeq 2009). However, due to the financial difficulties facing the country, the graduation has been postponed. Hence, up until now, Maldives is an LDC.

Poverty in Maldives is widespread due to inadequate distribution of income, employment opportunities, access to social services and progress of economic infrastructure between Male' and the rest of the islands (Asian Development Bank 2002). It is reported that 16% of the population of the Maldives live below the poverty line. Hence, a lot of effort is still needed to fight against poverty persistent in the country. Strategic progressive development projects are needed to curb this problem. But due to the fragile economy of the country which depends on the income received by sale of the "sunny side of Maldives" makes the country more susceptible to economic shocks. The country imports everything except tuna and this creates the economy more delicate. It is estimated that more than 90% of tax revenue for the government is accrued from import duties and tourism-related taxes.

Microfinance in Maldives: Is it really Microfinance?:

Microfinance maybe a new concept to the citizens of Maldivians as they have rarely or never heard of the term microfinance; but what they have heard of the small scale loans disbursed to selected parties of the population of the islands for development projects in the name of "lui loan" (light loans) where no collateral is required. Maldives have no institution that is specifically established for microfinance. It is only through the government that the population of the islands is given the "loans". Some people believe that Maldives have no microfinance; but the truth is that micro-credit and small loans disbursed to the rural population of Maldives are considered as microfinance. This scenario is described by Sinha (2009) as follows: "there is no microfinance program or model as such in the Maldives, no microfinance institutions".

Sinha (2009) is right to some extent, but the reality is that whatever the small loans or micro-credit facility given by the government to different groups of the population at different time of the years can be considered as microfinance and if the mechanism in which these "loans" are disbursed is analyzed, one could clearly see the microfinance model the government has been using. Hence, it is the view of the author that microfinance is visible in Maldives and there is a certain mechanism in which this is done by the government. This could be proved from the following quotation made from the Microfinance in SAARC Countries: An Overview Report (2010):

Maldives do not have NGO-MFIs as such and there is no particular model of MF delivery mechanism as in other countries of the region. There are some targeted credit schemes carried out by Development Banking Cell (DBC) of Bank of Maldives (the central bank of the country). The programs are targeted toward atolls that are distant from the capital and where the economic conditions are still not at par with the other parts of the country. DBC is mainly funded by UNDP and IFAD. The ministry of Women Affairs and Social Security (MoWASS) started its own microcredit schemes in 2000 with providing loans to women to establish microenterprises and self-employment opportunity. One should note the sizes of loans in Maldives are about USD 1,175 which is quite high in comparison with loan sizes in other South Asian countries (smaller than only Bhutan). Other government ministries also started their own credit programs such as agriculture revolving fund (for agriculture, tailoring etc.), credit to fisheries sector (for boats and fish processing) and even atoll electrification project in the smaller islands. There are some differences among the loan disbursement procedures and credit delivery systems in Maldives. Individual lending is the dominant method. However, several programs such as MoWASS's lending to women for establishing microenterprises gave credit to group of borrowers. The interest rates also varied by characteristics of the projects for which the loan was disbursed.

The source of money obtained by the government for microfinance differs, but the truth is that the overall purpose of these programs is to eradicate poverty and to develop the nation as a whole, rather than concentrating all the services and financial facilities to Male'. Another reason for having these programs was to stop the migration of the population to Male'. It was and is still hoped that if the rural population are given equal opportunities to develop, they will remain in the islands and work for the betterment of the nation. The following Table 3 illustrates some of the microfinance activities carried by the government of Maldives for the development of rural population in Maldives since 1980. It shall be observed that before the Tsunami, these projects were much common and different groups of the rural population was then targeted. But after Tsunami in 2004, most of the development projects are targeted to help the Tsunami victims to build their homes and to aid them to stand on their feet. Up until now this process is in place. Other than the government, the Bank of Maldives pvt Ltd (National Bank of Maldives) also plays a vital role in providing micro-credit to the rural population as they have established some branches in the islands. This is especially active after the Finance Act of 2006.

Table 3: Some of the microfinance projects carried out in Maldives

Period	Name of the Project/Program	Source of Fund	Target	Purpose	Information
1980s	Atoll Development Project	United Nations Development Programme (UNDP)	Rural population	To give rural credit and for livelihood promotion.	The project mechanism was by disbursing small amount of loans to the qualified cluster of the population. The loans are given without a collateral and the loans needs to be returned with interest
1990	Development Banking Cell (DBC)	International Fund for Agricultural Development (IFAD) and UNDP	Rural Population	To extend formal banking services to people living in far off atolls.	The rural population has the opportunity to deposit their money in the Bank of Maldives as DBC is established within the Bank of Maldives
1990-96	Atolls Credit and evelopment Banking Project (ACDBP)	Government of the Maldives (GoM), IFAD and UNDP	Rural population	To lay the foundations of development banking for the Maldives, reduce income disparitiesbetween Male and the outer atolls by providing employment opportunities; and develop a framework forsupporting future nutritional programmes	Small loans with interest were given to the public through the established branched of Bank of Maldives and directly if the population is inaccessible to banking
1996-2006	Southern Atolls Development Project (SADP)	IFAD, Organisation of Petroleum Exporting Countries (OPEC), UNDP, United Nations International Children and Educational Fund (UNICEF), GoM and BML	Rural population	To create and expand income generation and employment opportunities.	This is actually the second phase of ACDBP.
1998	Credit to fisheries sector	Ministries of Fisheries and Agriculture	Fisherman	For fishing boats and fish processing	<p>The government channels credit to the fisheries sector through two schemes – the first being the allocation of funding that is made for fishing boats. A total of about 200 loans have been provided for fishing boats (boats, mechanization etc)</p> <p>Credit has also been provided by MoFAMR for fish processing. By the end of 2001 from an allocation of Rf3 million, Rf2.19 million was disbursed to 256 borrowers in 33 islands in 8 atolls. The loan size ceiling was Rf25,000 and loan term for borrowers was two years including a six-month grace period. The interest rate was 7% p.a. that included the 6% charged by MoFT to MOFAMR and 1% administrative charge by MoFAMR. Loan disbursements were by cheques (encashable at BML branches) while loan repayment was in cash and collected through the Island or Atoll Office.</p>

1999	Atoll Electrification project	Ministry of Atolls Development	Rural population with no electricity	Loans disbursed for electrification of smaller islands	Atoll electrification project started with a revolving fund of Rf10 million with the objective of electrifying smaller islands. As on June 2002, 36 islands were electrified under this project. Loans under this project ranged from Rf120,000 to Rf500,000 with a service charge of 8% p.a.
2000	Micro-Credit Loan Scheme	Ministry of Women Affairs and Social Security (MoWASS)	Women	To lend to women for micro-enterprise and livelihoods.	The overall budget for the programme was Rf1 million. The programme was implemented in three phases – in the first three phases (2000, 2001 and 2006) loans amounting to Rf87,000 were disbursed in Male to 58 borrowers. In the third phase (2006) loans of Rf525,000 was also disbursed to 35 women borrowers in Gafu Alif Atoll. The loan size varied from Rf10,000 to Rf15,000 depending on the requirement of the borrower. The loan term was 3 years with a grace period of 2 months. The interest rate charged was 6% p.a. and the loans were repayable in equated monthly instalments (EMI).
2000	Agricultural revolving fund	Ministry of Fisheries and Agriculture	Farmers	For economic development	The loans from this account ranges from Rf25,000 and to Rf7.6 million. The loans were disbursed for agriculture, printing, embroidery and tailoring, launderette and dry cleaning, operation of clinics, filming, graphic designing, electrification, taxi service, repair and maintenance service centres.
2004-2006	Atoll Development for Sustainable Livelihood Project (ADSLP)	UNDP	Population affected by sunami	The project aims to restore livelihoods and food security on the worst affected islands, and was initially selected in consultation with Government of Maldives. The project components include agriculture, fisheries, waste management, women's livelihoods, decentralisation, micro credit, small grants scheme, and a pilot project to develop handicraft making as an alternate source of income.	Implemented in five atolls through the Ministry of Atolls Development (MoAD). This project included a credit component for income generation activities.
Period	Name of the Project/Program	Source of Fund	Target	Purpose	Information
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1990	Development Banking Cell (DBC)	IFAD and UNDP	Rural Population	To extend formal banking services to people living in far off atolls.	The rural population has the opportunity to deposit their money in the

					Bank of Maldives as DBC is established within the Bank of Maldives
1990-96	Atolls Credit and development Banking Project (ACDBP)	Government of the Maldives, IFAD and UNDP	Rural population	To lay the foundations of development banking for the Maldives, reduce income disparities between Male and the outer atolls by providing employment opportunities; and develop a framework for supporting future nutritional programmes	Small loans with interest were given to the public through the established branched of Bank of Maldives and directly if the population is inaccessible to banking
1996-2006	Southern Atolls Development Project (SADP)	IFAD,OPE, NDP,NICEF, GoM and BML	Rural population	To create and expand income generation and employment opportunities.	This is actually the second phase of ACDBP.
1998	Credit to fisheries sector	Ministries of Fisheries and Agriculture	Fisherman	For fishing boats and fish processing	
1999	Atoll Electrification project	Ministry of Atolls Development	Rural population with no electricity	Loans disbursed for electrification of smaller islands	
2000	Micro-Credit Loan Scheme	Ministry of Women Affairs and Social Security (MoWASS)	Women	To lend to women for micro-enterprise and livelihoods.	
2000	Agricultural revolving fund	Ministry of Fisheries and Agriculture	Farmers	For economic development	Loans with interest disbursed for agriculture, tailoring, embroidery, operation of clinics
2004-2006	Atoll Development for Sustainable Livelihood Project (ADSLP)	UNDP	Population affected by Tsunami	The project aims to restore livelihoods and food security on the worst affected islands, and was initially selected in consultation with Government of Maldives. The project components include agriculture, fisheries, waste management, women's livelihoods, decentralisation, micro credit, small grants scheme, and a pilot project to develop handicraft making as an alternate source of income..	Implemented in five atolls through the Ministry of Atolls Development (MoAD). This project included a credit component for income generation activities.

Source: Sinha (2009)

It is evident from the above table that the microfinance methodology differs from project to project and Sinha (2009) observes the following with regard to this:

The microfinance methodology for delivering targeted financial services differed with the programmes. The most common methodology seems to be individual lending which is collateral free. In a couple of programmes including BML's ADSLP and MoWASS loans were also given to a group of borrowers for establishing micro-enterprises. The interest rates charged from the borrowers also varied with programmes. In MoFAMR programme for promoting fish processing interest rate of 7.0% p.a. was charged from the borrowers. MoWASS charged 6.0% p.a. from women entrepreneurs while BML rate of interest varied from 7.0% to 11.75% depending on the project.

It is clear that the microfinancing in Maldives is based on conventional methods where *riba* or interest is charged. As, this is against the principles of Islamic law the, Islamization of microfinance is essential.

Need For Islamic Microfinance in Maldives:

Microfinance could be Islamized in Maldives and the benefits the population could attain from this are numerous. Potential of microfinance in Maldives could be reflected by listing the real reasons why Islamic microfinance is needed in Maldives. This would open one's eye on this matter. The real reason why Maldives requires an Islamic microfinance mechanism is because the whole population is in dire need to access financial services, and to be subsequently involved in the development process of the nation in a manner in which is consistent with the *Shari'ah*. So the use of a suitable model of Islamic microfinance in Maldives would definitely help the population to achieve this.

Suitable Islamic Microfinance Models for Maldives:

It is not an easy task to come up with a single Islamic microfinance model which would benefit the whole country. But after understanding the local circumstance, the author has suggested two main types of Islamic microfinance models which may be compatible to Maldives. The two models suggested by the author are described below:

Model 1: Socially Responsible Model:

In the socially responsible model, the main objective would be to help the needy, rather than getting an economic benefit out of it. The first question that could be raised here is from where do we get the money to aid the needy and what would be the benefit any one could get from this? This question has two limbs; hence each of these limbs would be dealt separately.

In any Islamic nation, there would be a *zakah* or an alms fund that is collected to fulfill the religious obligation. Likewise, in Maldives, though we do not have a charity fund, we have a *zakah* fund in which the money is collected for the purpose of fulfilling the needs of the poor and those who are in need. This fund is managed by the Ministry of Islamic Affairs of Maldives. Sometimes, a dedicated part of this money is used to give scholarships to those who have no means to pay tuition fees. The balance is kept and preserved in the fund. Hence, this *zakah* fund could be a good source of money to give people in need for development purposes.

The benefits the individuals and the society enjoy from this type of an arrangement could be both short term and long term. In the short term, the individuals who are in need would get a chance to develop themselves by starting a business or getting fund for education and this would solve their problems temporarily, also making the society a peaceful and a happy one. The economy will be healthy as people are more self sufficient. In the long term, the country would see development and the gap between the rich and poor would be smaller. This indeed would be a sign of equitable distribution of income between the populations living in Male', and the other islands.

However, in practice, the dilemma faced would be how to select the people for the program? Who will determine whether they are eligible or not and how much shall we allocate to each beneficiary? Should the amount given be same? The answers for these questions are simple, but it is hard to practically implement the answers of these questions.

The Ministry of Islamic Affairs of Maldives could decide to allocate a certain portion of the fund to give microcredit to the islands and this program could be conducted twice a year. The Ministry would be responsible to classify the number of people and the sectors to which the aid would be given. The Ministry would publicize the eligibility criteria and will give adequate period for the interested parties to apply.

Each island of the country has an Island Office and through these Island Offices, the people in the islands could lodge their applications and the Island Office would be responsible for sending all these applications to the Ministry of Islamic Affairs located in the capital of Maldives. Then the persons eligible could be identified. As per the maximum number of people that can be assisted through this mechanism, joint decision would be made on a prioritization basis to identify the set of people to be assisted in each of the allocated sectors. All beneficiaries are eligible to same amount of aid because of the difficulty in gauging the specific needs of each individual. A typical ceiling value would be determined by the Ministry. The aid could be given either in the form of charity or under the concept of Gard al hasan.

This model is workable in the country without any changes brought in the legislations of the country or without legal hassle created for the parties involved in it. In this contemporary time, in Maldives it is hard to find Cooperatives in all the islands. Hence, giving funds to individuals would be more appropriate.

The table 4 summarizes the Socially Responsible model suitable to offer Islamic microfinance in Maldives.

Table 4: Mechanism of Socially Responsible Model of Islamic Microfinance in Maldives

Components	Explanation
Source of Fund	Portion of zakat fund allocated for this purpose
Responsible Authority	Ministry of Islamic Affairs
Targeted Group	Rural Population
Nature of aid	No repayment/charity or under the concept of gard al hasan
Frequency	Twice a year
Eligibility	The number of beneficiaries to be given aid is decided based on the local circumstance. Sector based slots. Individuals who represent the sectors are eligible to apply for this.
Mechanism	Application would be made through Island Offices established in each Island of the country and Ministry of Islamic Affairs would assess whether a person from a specific industry is eligible to get aid or not and if the people eligible from same industry or sector are too many, beneficiaries would be selected based on a prioritization decision made by the Ministry.

Model 2: Profit Oriented Model:

The objective of this model would be two-fold: that is to help the needy and to get some economic benefit from the scheme. Definitely, there are varieties of Islamic mechanisms used to achieve this objective. However, it is the author's view that the most suitable type of Islamic contract that could be used in Maldives for this purpose is *salam*. This is because the declining industries in Maldives that need serious help are fishing and farming. Thus the *salam* contract would work like a miracle to develop and sustain these industries.

Salam is the Islamic version of the conventional forward contract and it can be defined as "a sale of purchase of a deferred commodity for the present price, Bay ajilin bi ajil" (Amine, 2008). In other words, *salam* is a contract where two parties enter into a contract of sale of goods which would be delivered in future for which the price for the goods would be paid in cash on spot at the time of the signing of the contract.

The responsible authority to initiate this type of financing facility in Maldives to the rural population could be the Maldives Islamic Bank Pvt Ltd (MIB) established in March 2011. If MIB starts this type of a scheme to help the rural population, it will indeed be fulfilling its ethical and social responsibility towards the society and the environment in which it is operating.

Under this model, the fund for *salam* facility would be given from the money in the charity fund of the Bank or from a portion of the Bank's profit. The Bank would open for the interested parties to apply for *salam* facility and the Bank would see whether the parties interested are eligible to receive the facility. The bank would then enter into a *salam* agreement to purchase either the agricultural goods or fisheries goods which will be produced in a specified future date. The actual quantity and the quality of the goods would be specified in the contract. The Bank would then enter into another contract with the same customer to appoint him as the agent of the bank with a specified *ujr* or fee to sell the products for the bank. The purpose of this contract is to overcome the operational risk which might be faced if the perishable goods produced by the customer are stored by the bank. Under this agreement, the customer will agree to give proceeds of sale to the bank after deducting the *ujr* portion from it. This model gives the customer the benefit of having sold all the crops or fisheries products to be produced in future and as an agent of the bank, the customer also gets some profit from sales of proceed as an *ujr*.

However, there might be some problems in implementing this model in Maldives. Firstly, the question which arise here is how MIB is going to access to the rural population and introduce the product to the rural population as they have no branch office in any of the islands except in the capital Male'? The second issue here is how would MIB monitor the actions and progress of the customer? Another issue is: what if the customer runs away with the proceeds of sale?; or what if the customer is unable to sell the produce?

For the purpose of getting access to rural population, MIB could advertise their product through the Island offices located in each Island and if there are interested parties, they could be asked to submit their particulars to the Island Office and the Island office could forward the information to MIB. This way MIB would get access to the rural population with lower cost. As for monitoring, MIB could officially appoint the Island offices to do this, as their job scope is limited to look after the people in the Islands. The coordination between MIB and Islanders are essential to succeed in such an endeavor. Stipulating penalties for failure or default except in circumstances of natural calamities would suffice to solve the runaway risk and the risk of being unable to sell the produce on time. But in any circumstance, MIB shall not ask for collateral as micro financing facilities shall be done based on mutual trust. But in cases of default, MIB shall consider the 2: 280 of Qur'an which advocates defaulters in true financial distress should be given ample time to settle the debt.

Table 5: Mechanism of Profit Oriented Model of Islamic Microfinance in Maldives

Components	Explanation
Source of Fund	Maldives Islamic Bank Pvt Ltd's Charity Fund/Profit
Responsible Authority	Maldives Islamic Bank Pvt Ltd
Monitoring Body	Island Office/Bank of Maldives (as it has established its branches in many Islands)
Targeted Group and Industry	Rural Population/Fishing and agriculture
Nature of aid	Salam Facility
Frequency	Four times a year
Eligibility	Individual's performance and capability would be assessed
Mechanism	<ul style="list-style-type: none"> • MIB will advertise the facility through Island Office and the interested parties would notify their interest through Island Office to MIB. • MIB will then, send the formal application form to the Island Office and the applicants will fill the forms and the forms would be sent to MIB by the Island Office. • Successful applicants will be notified and a formal agreement of <i>salam</i> would be entered. Under this agreement, MIB agrees to pay money in advance upon signing of agreement to purchase a homogenous good of which quality and quantity is specified. The customer agrees to deliver the goods on a specified future date to MIB. • Subsequently an Agency agreement to sell the produce would be made with the same customer and an <i>ujr</i> would be given for the service. • Under this agreement, the customer will sell the produce and proceeds from sale would be given to MIB after deducting the <i>ujr</i>. In this arrangement the goods would be constructively delivered to MIB by the customer.

The above described two models are the proposed models of Islamic microfinance to be implemented in Maldives. It is hoped that these two models would be easy to put into practice in Maldives. Definitely there is no harm in testing these two models. However, the biggest challenge in implementing these two models would be the geographical difficulty in physically transporting things from one island to another or from Male' to the other Islands. This problem would be solved if the Bank of Maldives initiates giving Islamic microfinancing to the rural population as it have established many of its branches in the islands.

Findings & Recommendations:

It is found that there are no microfinance institutions in Maldives, but microfinancing facilities have been provided to the rural population by international organizations through the government and during the recent years the national Bank of Maldives, Bank of Maldives Plc have made some efforts to provide microfinancing facilities to some of the rural population. But the mechanisms used in giving microfinancing in Maldives are based on conventional methods where *riba* is involved. Up until now, the country has never tried an Islamic microfinancing model. But for a hundred percent Muslim country, initiation of an Islamic microfinancing facility is essential.

It has also been found that launching a proper Islamic microfinancing mechanism would boost the economic development of the nation as the rural population of the country would get the opportunity to become self sufficient. Islamic microfinancing will definitely create equal opportunity for the whole population. However, the geographical barriers are the biggest challenge for the development of Islamic microfinancing in Maldives. Hence, two different types of Islamic microfinancing models were proposed to be implemented in Maldives.

One of these models is a socially responsible model, where a mechanism was proposed to utilize a portion of *zakah fund* as a source of fund for microfinancing; and the other one is a profit oriented model using *salam*. These two models were proposed by carefully studying the nature and the context of the country. It is recommended to test the two proposed models to comprehend the practical aspect of it. It is viewed here that if the Bank of Maldives could initiate Islamic microfinancing in Maldives, it would to an extent overcome the geographical challenge which makes it difficult to access the rural population, as under the Development Banking Cell (DBC) scheme or project, the Bank of Maldives have already established lots of its branches in the capital island of the atolls.

Conclusion:

For a country like Maldives, which is still a developing nation with one hundred percent Muslim population, Islamic microfinancing is essential. For the sake of development and growth of the nation, boosting the aspirations of the rural population is a must. Then only a healthy economy could be maintained. Like welcoming Islamic banking to the country, it is essential to Islamize the microfinancing facility. Hopefully, this will materialize soon and it is hoped that the two models suggested in the paper would facilitate the process. It is anticipated that in the process, Islamic microfinancing institutions would emerge and the legislature would enact laws to regulate and propagate its growth.

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