

Small Loans according to the Koran

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The Mali-North Program is playing an important role in helping to pacify the crisis region of Timbuktu. One result of the reconstruction work is the small Islamic bank Azaouad Finances. It stimulates commerce and is a model for similar financial institutions in the country.

Each Friday, the small city of Léré erupts with dazzling life. Friday is market day. Local traders and merchants from all over offer their wares: millet from the north, rice from the Niger River Valley, industrial products that usually enter the country through Mauritania, and, above all, animals from northern Mali. This city at the western edge of the Timbuktu region has 6000 residents, but an equal number of merchants

and buyers double the population on market day. The lively market scene is a small miracle, in which almost no one in Mali would have believed 10 or 15 years ago. In the early 1990s, there were fierce conflicts in Timbuktu, Gao, and Kidal, the three northern and poorest regions of the country. The unrest began with the Tuareg rebellion in 1990. The Tuaregs, who prefer to call themselves the Tamacheks, lived primarily as nomads and



animal herders in northern Mali, in the steppes along the southern edge of the Sahara. During two long periods of drought between 1973 and 1984, they lost almost everything on which their livelihood was based. Unmet Tuareg demands for self-government finally led to rebellion in 1990. The Tuaregs and local black groups came into conflict, which was only provisionally resolved in 1992 through the National Pact. Sporadic fighting continued to erupt until 1995. The western part of the region of Timbuktu was especially hard hit. By 1997, hundreds of thousands of refugees finally returned from camps in Mauritania and other regions of Mali to an almost deserted no-man's land.

German development cooperation has accompanied the process of pacification since 1995 through the Mali-North Program, under the direction of Henner and Barbara Papendieck. The tasks in the first two phases were resettlement and reconstruction. Since 2000, development cooperation has been concentrating on overcoming one of the causes of the bloody conflict: rural poverty. The cooperation program, supported by GTZ (German Technical Cooperation) and KfW (German Financial Cooperation) on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), is helping in important ways to develop the former civil war areas in this arid region of Timbuktu. In addition to rural development and the promotion of municipal structures, it has a third component: microfinance.



New trade structures

This component leads back to the market in Léré. Trade requires capital to purchase goods. And that is what the returning refugees did not have at the beginning. Furthermore, the structure of economic activity had also changed. Fishermen fish, farmers plough land, and nomadic Tuaregs raise animals. The boundaries delineating this often ethnically-based division of labor have become blurred. The traditional roles no longer function, in part because of the increasing aridity. Fisherman now also cultivate land; farmers raise animals; and increasing numbers of Tuaregs – traditionally, nomadic herdsmen – are settling down and trading animals or farming. At the same time, the traditional barter trade is developing into a money economy. Thus, also in Léré, trade began in industrial goods that locals obtain from merchants in Mauritania, Libya, or Algeria – merchants they met during their years as refugees.

“Without the required start-up capital, however, most merchants in Léré would quickly fall into a debt trap,” explains Konrad Ellsäcker, General Manager of *Finances pour le Développement Economique et Social* (FIDES). The organization has therefore begun with preparations for the creation of a financial institution, on behalf of GTZ and as part of the Mali-North Program. There was an earlier idea to set up an institution in Léré managed and refinanced by the *Banque Nationale de Développement Agricole* (BNDA) in the capital, Bamako. However, this was rejected by the merchants and notables in Léré. “We don't want it here,” was their reaction as reported by Claudia Radeke, KfW Regional Manager for the Sahel Zone and East and West Africa. The potential customers of the bank preferred to take the matter into their own hands, because they knew a classic commercial bank would not be able to sustain operations in their environment, and the conditions for access



Capital instead of a debt trap: more and more Tuaregs are giving up their nomadic way of life and are settling in cities. Peaceful co-existence between all ethnic groups requires that money for trade circulates freely. The Mali-North Program therefore acquired an additional component: microfinance.



to such a bank would exclude most small entrepreneurs.

But it was not easy to get everyone to agree. The idea of the project was that no group was to be excluded from the bank – neither the Moors, the Tuaregs, or the various black African groups. Some of them, however, were leading figures of the factions that only a few years earlier had bitterly fought each other. Nevertheless, the project team was able to work out the basics of the bank concept with the key people of Léré. Ellsäßer: “The fact that we took the people seriously as businessmen and did not view them as poor victims helped considerably.”

A small bank in the market city

The situation	Rural poverty in northern Mali entails the latent threat of armed and bloody conflict.
The objective	To enable the 500,000 residents of the 35,000-square-kilometer region of Timbuktu to make better use of the economic development potential of the region.
The concept	A network of small, sustainable financial institutions located near the most important market sites provides local micro and small entrepreneurs with access to the financial sector.
The partner	A committee composed of representatives of the various ethnic groups determines the overall direction of the North-Mali Program, in which Technical and Financial Cooperation complement each other.
The cost	BMZ is supporting the creation of a microfinance structure with 2.5 million euro for Technical Cooperation through the North-Mali Program. Capital for the institutions comes from local small enterprises and refinancing is from commercial banks at market terms.

According to Islamic rules

It very quickly became apparent: the most important common denominator on which the previous civil war opponents could agree was Islam. A bank that respected the religious rules for financial services would be accepted by everyone. High-ranking religious scholars were consulted via satellite telephones. Then it was clear: Azaouad Finances plc would be an Islamic bank.

“All participants vehemently rejected the western bank model, with its interest charges, as ungodly and immoral,” reports KfW Regional Manager Radeke, who visited the bank and its board of directors in Léré. “We do not charge interest, we participate in the profits and losses of borrowers,” was the way it was explained to her. Actually, the bank disburses loans with a disagio and later demands the entire amount of the loan back. “And this disagio is quite large: between 17 and 25% a year – for loan maturities of perhaps four or six weeks for a commercial business.” Konrad Ellsäßer also has reservations about the term Islamic bank. He thinks it is a misleading term and believes there are no Islamic banks, just as there is no Islamic medicine or mathematics. Ellsäßer: “There are also no Catholic banks, just banks that manage money well or poorly.” The only question is: does a bank, in addition to proper financial management, respect the rules of Islam for financial transactions or not?

These rules include, for example, that a bank may only take a small payment for a loan if the business it financed fails. It may well be that the borrower was not even to blame for the failure, because, for example, the goods of a commercial business were destroyed in an accident. In this way, banking systems in conformity with Islam actually employ a quite modern form of venture capital. Similar concepts are used in western banks, for example for innovative technology firms. The purpose of the Islamic rules is

Islamic Principles

The nature and role of financial systems in Islam can be traced to the influence of the Sharia as a legal and moral guide and its social-ethical ideas that flow into an Islamic business ethic. The Sharia calls for social and economic (distributive) justice and solidarity. Money is not viewed as an investment that works alone to earn profit, but as a means with which to create prosperity for the entire Muslim community.

In an Islamic economy, trade and business are promoted. However, this should not be limited to a few actors, but should serve the common good. Profit from trade and investment is permitted. However, investment should not be speculative,

but productive. It can be made in the form of risk participation in firms whose products are not at odds with Islamic morality. This is intended to facilitate economic cooperation and social justice. If Muslims find that they are unable to constructively spend their financial resources, they are obligated to make those resources available to others in the form of equity financing. This then leads to a socially efficient overall allocation of capital according to criteria of productivity and profitability.

An essential characteristic of an Islamic financial system is the prohibition of interest, *riba*, regardless of its rate or the amount on which it is



to prevent a borrower from becoming a life-long debtor in the worst case and thus being economically and socially marginalized. In exchange, payment for a loan is allowed to be higher for successful businesses.

The Islamic banking system regulates this in the following manner: if a bank customer contributes two million in capital to a business and the bank supplements this capital base with a loan of one million, then it demands up to one-third of business profits as payment. The rationale: the bank also provided one-third of the capital. If the business financed in this way is unexpectedly good or bad, either side can unilaterally demand that the costs of the loan be adjusted. The arbitrator for such sensitive matters is the Iman of the Léré mosque, who acts as a kind of commissioner for the bank and is responsible for interpreting the Koran in that capacity.

The purpose of Azaouad Finances, in addition to offering savings instruments is, above all, the extension of loans, primarily to small merchants. In the beginning, whoever wanted to take out a loan from the bank first had to subscribe for shares of the institution. Now, the circle of borrowers has extended far beyond those who are members of the bank. KfW banker Claudia Radeke has no doubt: the bank is profitable. FIDES General Manager Ellsäcker knows that banks with Islamic rules are profitable not only in Léré: "In worldwide rankings of profitability, Islamic banks are often in first place." It was important to adjust this bank concept to prove that awarding small loans to poor people is a sustainable concept.

Business is good

With the loans from Azaouad Finances, the market in Léré has also blossomed. The business relationships of many merchants in this small market on the southern edge of the Sahara now reach to Abidjan in the south and the Arabian peninsula in the east. A new business area of the bank also helps local women to

finance market stands. "A real break with old traditions," enthuses Claudia Radeke. Before this, women were not allowed to operate their own businesses. There is also no discrimination against other groups. Among the borrowers are many black Bellahs, Songhoys, Bambaras, and Dogons, including many former bondsmen.

If it were only an isolated measure, Azaouad Finances would not be able to meet all the needs of its customers. At a time when even animal herdsmen drive their animals to far-flung markets and sell them there, it is much too dangerous for merchants and the creditor bank to allow the businessmen to return with fat bundles of cash in their pockets. The founders of the bank in Léré were therefore pragmatic enough to enter into cooperation with the rather unpopular BNDA in Bamako, in order to thereby link up with the SWIFT international payments system. Now the herdsmen can deposit the earnings from their business dealings in Abidjan or Dubai into their account in the Léré bank using a SWIFT transfer.

If money is not needed for a few days or weeks, bank customers can deposit their money in an old vault in the bank building. The vault comes from a credit union in Gießen, Germany and, as the KfW banker Radeke says, has "greatly increased the customers' trust in Azaouad Finances." The example of the small financial institution in Léré is now being widely studied. Delegations arrive in Léré in from other parts of Mali in order to take a look at Azaouad Finances.

Lack of access to financial services is a critical development handicap in a world that is changing and becoming increasingly monetized. Because demand is high, GTZ intends to support the creation of additional small financial institutions in northern Mali in the coming years. The next bank will soon be opened in Attara on the Niger River. An example of successful transition from emergency aid to economic development. ◀

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charged (Suras 2.275 and 3.130). The prohibition of interest is intended to prevent the accumulation of wealth in the hands of a few. Islamic legal scholars therefore view the collection of interest as immoral.

Since the 1970s, the Islamic banking system has experienced strong growth, stimulated primarily by the balance-of-payments surpluses of the oil-exporting countries. The Sharia banking system now encompasses several billion dollars. Despite the growth of the formal Islamic banking sector, the majority of the poor in the Middle East and in chiefly Islamic regions of Africa and Asia still have no access to financial services. In spite of the

widespread abundance of resources, here the supply of microfinance services remains far behind that of comparable developing regions. The reasons for this are basically the lack of appropriate Islamic financial technology and the unsustainability of current suppliers. ▶

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