Regulatory Framework For Member-Owned Islamic Microfinance Institutions (MIMIS) In Sub-Saharan Africa (SSA)

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Abstract

Member-owned Islamic microfinance institutions have been toasted to be the alternative means of financial inclusion among the Muslims who are voluntarily excluded from participating in the traditional member-owned microfinance institutions because of the interestthey charge. This novel idea is still new and little is known about its operations and regulations guiding its operations. This paper surveys the practices of the common member owned Islamic microfinance in Sub-Saharan Africa with a view of recommendinga regulatory framework for its operations based on these practices. This paper, thus, proposes a number of regulations for the operation of both Islamic Saving Groups and Financial Cooperative. It is hoped that these proposed regulations will assist the operators, policy makers and donor agencies to chat a way of improving the financial inclusiveness of the poor who are excluded from benefiting from the available member-owned microfinance institutions with a view to lift them out of poverty.

Keywords: *Member-Owned Islamic Microfinance, Regulatory Framework, Financial Inclusiveness, Saving Group, Financial Cooperative.*

1. Introduction

The newness of member-owned Islamic microfinance institution, its peculiarity and the environment in which it operates need some regulations to forestall spectacular bankruptcy in the nascent Islamic financial institution. This is because when it performs badly, the investment of the poor members are at risk. Experience from the conventional member-owned microfinance institutions have shown that a saving-led institution does not guarantee the quality of loan and its repayment.

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The importance of member-owned microfinance in Sub-Saharan Africa cannot be over emphasised. More than 85 percent of people in this region are un-bankable with majority living in rural areas where there are no financial services, formal or informal[4]. Member-owned microfinance is as major instrument to reach out to these people in order to facilitate financial inclusion of overall rural population. Saving group and financial cooperatives are two saving-led and member-owned microfinance institutions common in this region of the world with over 27 million members. Saving group refers to an informal, self-selected group of between 10 and 30 individuals that own and manage it. It is widely distributed in both rural and urban areas and thrives well in the areas that lack the presence of microfinance institutions, with women being the majority of the members. Financial cooperatives are member owned microfinance institutions which are open to people that fit the laid down criteria. Member-owned Islamic microfinance institution refers to either Saving Group or Financial Cooperatives that has resolved to use Islamic principle in its operations. This institution operates similar to the conventional member-owned microfinance institutions with additional shariah restrictions.

While member-owned microfinance institutions have a long history in Sub-Saharan Africa, the operation of the Islamic member-owned microfinance institutions is less than a decade in the region where it is still struggling to have a firm grip. If this institution is expected to fill the gap of financial exclusion of the poor Muslims who are voluntarily excluded from enjoying the financial benefits of the conventional microfinance institutions, because of their beliefs, there is the need for a sound regulatory framework to guide its operations in order to protect members meager savings, facilitate government appropriate supervision and encourage donor assistance, especially those that are interested in assisting the non-interest based member-owned microfinance institutions. This paper, therefore, proposes a set of rules and regulations for member-owned Islamic microfinance institutions to guide their operations in order to safeguard their members and facilitate both government and donors' involvements. The remaining part of the paper is arranged as follows. The second section is on the literature review, third section presents the proposed regulations and the fourth and final section concludes the work.

4 FinScope Africa Brief, November 2007. MIX and CGAP analysis trends, February 2012. '2011 Sub-Saharan Regional Snapshot'.

2. Literature Review

Microfinance Institutions

Microfinance refers to the provision of different types of financial services such as, deposits, loans, payment services, money transfers and insurance to poor and low-income households and their micro enterprises. This is borne out of the concept that poor individuals have the abilities to work themselves out of poverty line if financial services is made available to them[5]. A microfinance institution offers financial services to the low income, poor and marginalised individuals that would not be accepted normally by traditional banks, and provides transaction services for amounts that may be smaller than the average service fees charged by the traditional mainstream financial institutions[6]. Poor people encounter problems which impede their ability to move out of poverty. These problems include inadequate funds which results from insufficient infrastructural and institutional provision (Alam, 2003). Coleman (2006) identifies perceived high risk and high cost of transaction related to the loans and saving deposit as the reasons why the commercial banks could not provide the credit needs of the poor. This is because commercial banks require security for their loan which the poor do not have; the process of loan is complex and they prefer giving out big loans which is far more than what the poor entrepreneurs need (Gofran, 1996). Ashraf, Hassan and Hippler (2014) examines the performance of microfinance organizations in Muslim countries. Hassan, Sanchez and Ngene (2012) estimates efficiency of MFI in MENA countries.

This is where Microfinance institutions come in. They offer the poor financial services that meet their needs. These services include loans, savings, remittance, insurance and venture capital at their level to overcome their financial shortages. This helps the poor micro enterprises to boost their income and guarantee their economic wellbeing; create assets and reduce susceptibility; increase their demands of other goods and services and promote local economies (Juwaini*et al*. 2010). Microfinance is also an adaptable tool that can be adjusted to suit different environment according to the economic needs and financial situation of the people in that locality (Fouzia, 2012). Traditionally, three types of microfinance institutions are in operation. These include formal institutions

5. http://www.adb.org/sectors/finance/microfinance

6. http://www.investorwords.com/17362/microfinance_institution.html

–such as banks and cooperatives in rural areas, semiformal institutions in the form of non-government organizations and informal micro financial institutions that include money lenders and shopkeepers.

However, the facilities of the traditional micro financial services fall short of the needs of the majority of Muslim population. This is because the conventional microfinance institutions operate on riba (interest) which they charge on the loan they extend to the people. This is against the Islamic tenets, and as such, a large number of Muslim entrepreneurs abstain from benefitting from the traditional microfinance services in order to do away with interest which is against the *Sharī'ah* (Obaidullah, 2008; Akram Laldin and Furqani, 2013). Hence, Islamic Micro Finance (IMF) was developed to fill this lacuna. Its goal is to extend shariah compliant loans to the poor entrepreneurs that have been excluded from the capital provided by the traditional banking sector that only serve the bigger entrepreneurs in the economy that have the ability to meet their demands. Meanwhile, microfinance is not meant for the ultra poor who need financial intervention, rather the fringe poor with entrepreneurial ideas whom, with access to finance, could come out of poverty to live a decent and quality life but cannot access formal finance. In this circumstance, Islamic micro finance has a big role to play in Muslim countries as alternative to conventional microfinance, as a tool of enterprise creation and expansion that develop human capital base to meet the financial requirement of the Muslim community.Therefore, it plays a great role in the economic growth of the Muslim community.

Islamic Microfinance

The Islamic financial system broadly denotes financial activities that comply with the teachings of the Shari'ah (Islamic law). The principles and laws of Islam demand some types of activities, risks or rewards to either be forbidden or encouraged. Many Shari'ah laws, rules and interpretations take into account the subject of social justice, equity and fairness, as well as the implementation of commercial transactions. "*Islamic microfinance fits into the asset-based economic paradigm and equity objective of Islamic moral economy as well as fulfilling other social expectations"*[7]. Thus microfinance provides wide varieties of financial resources to low-income families to grow their businesses and increase their income generating capabilities.

7. http://lexicon.ft.com/Term?term=Islamic-microfinance

The conventional microfinance services exclude the majority of Muslim population. This is because these services operate on interest and the Muslims refuse to utilize them even though they have access to them. Paying or charging interest is forbidden in Islam. Thus, a large number of Muslim entrepreneurs abstain from benefitting from the traditional microfinance services in order to do away with interest which is against the *Sharī'ah* (IRTI, 2007; Mahmood, Muhammad Khan and Qamar, 2015).

The success stories of Islamic microfinance in Muslim countries are still few. This is because these institutions have not been fully incorporated in countries' formal financial systems. Except for few countries, Islamic microfinance in Muslim countries has been experimental projects operated by foreign donor agencies, religious or political groups. The case becomes worse when we consider the number of Islamic banks practicing microfinance. The first Islamic microfinance initiative after the fall of Islamic caliphate was by MitGhamr in Egypt in 1950s. However, the experiment was aborted shortly. Notwithstanding, in the recent years, a few number of successful experimentation of Islamic microfinance have been witnessed throughout the world (Obaidullah, 2008).

Islamic microfinance began in Malaysia in the early part of second half of the 20th century with the introduction of the Tabung Haji. This was borne out of the intention to finance the hajj cost of poor Malaysian farmers. Started as a saving and investment institution, Tabung Haji has now become a big specialized financial house, financing various projects within and outside Malaysia. This good initiative has been followed by some other South East Asian countries (Obaidullah, 2008).

Islamic Microfinance and Poverty Alleviation

A number of authors have discussed the role of Islamic micro finance as a means of poverty reduction. According to Rahul and Sapcanin (1999), the risk sharing component of Islamic microfinance is compatible to the needs of the poor who have no collateral to obtain loans from the conventional banks. This, they claimed, will make it possible for poor entrepreneurs to finance viable projects that have been turned down by conventional institutions due to lack of collateral. And as such, those projects can be financed by Islamic microfinance through its risk sharing products. In his own submission on the role of Islamic finance in poverty reduction, Chaudhri described Islamic finance as a double prong approach to poverty alleviation. This is because it empowers the poor by utilizing the idle capital which would have been

charged negative interest (Zakat) for lying fallow for a year round (Chaudhri, 2006). Thus, Islamic microfinance will provide fund for the enterprising poor and generate additional income for the owner of the fund.

Islamic microfinance has also been described as a safe haven for investors against credit crisis. Frasca (2008) while looking at the competitiveness of Islamic microfinance, noted its ability to protect the investors from the excessive speculator of the conventional, thus, protect them from unwarranted financial crisis.

Key Characteristics of Member-Owned Islamic Microfinance Institutions in SSA

The importance of member-owned microfinance is obvious anywhere in the world and SSA is not an exception. This is because saving led organization has more members compared to credit-led providers. The two common saving-led organizations that are of focus in this study are saving-group and financial cooperatives. In SSA, membership of financial cooperatives is more than 20 million while that of saving group is over 7 million. Member-owned Islamic microfinance is relatively new and few in SSA. This section enumerates a number of characteristic observed among the two types of member owned Islamic microfinance in this region[8]. These characteristics are discussed separately for Islamic saving group and financial cooperatives.

Islamic Saving Group (ISG)

There are different types of saving groups methodologies in operation, most especially when they draw heavily from the experiences of the well established conventional saving groups. However, the following characteristics seem to cut across them:

i) Membership: Like its conventional counterparts, Islamic saving groups are typically self selected group between 10 to 30 members, single sex or mixed group within the same locality. At times they are guaranteed by members of already existed saving group in that locality that has already have the required number of members. This is to make sure that members are not only known within the locality, there are actually others who could stand for them. Members are expected to be active in attending meetings, paying their contributions and returning the loan when due. Any member found to be falling short in the responsibilities given

8. This section draws heavily from the experience of member-owned Islamic microfinance organizations in operation in Nigeria.

may be replaced, after recovering their outstanding, through paying up or the use of guarantor contributions to cover the shortfalls.

ii) Ownership and Management: It is normally owned and managed by members. Management committee is chosen among the members to take charge. However, the decision is taken jointly at the meeting which normally comes up once every month. All the requests for loans or issues that arise are tabled at the meeting and decisions are taken together. The committee members mostly comprise of chairperson, secretary and treasurer. While the chairperson chairs the meeting, the secretary takes the minute and the treasurer keeps the record of accounts. To ensure transparency, other members are also encouraged to take note of the group's account. Every decision must be taken at the monthly meeting where every member is in attendance and all the requests must pass through this process, even if it is from the management committee.

iii) Profile of the member: Members are mostly Muslims who have come together to form Islamic saving group in order to avoid interest pay and charged by the traditional saving groups. They are common in the urban area or its suburb, mostly as self-help organizations. Members are not necessarily poor.

iv) Sources of loan fund and administration of the group: Members contribution forms the bases of loan provided to the members. The affair of ISG is normally run by the membership fees paid by members for joining the group. There is no other ways by which ISG makes savings aside these two sources since they don't charge interest and they do not involve in other money making activities. Each member, normally, pledges certain amount of money as month contribution. This varies from member to member and group to group based on the capability of the members.

v) Products: The main product of ISG is saving which serves as the main source of fund for the other product which is loan. The average loan is usually small, for both consumptive and productive. There is always an initial period of contributions before a member can be entitled to a loan (usually six months). The initial loan that is extended to the member is always equal to initial contribution on the probation period which is guaranteed by other members and payable over the period of between 3 to 10 months. Subsequent loans may be up to maximum of 3 times the individual's contribution. Member requests are tabled at the meeting and requests

are entertained based on the availability of fund, the needs of those who applied and their performance on previous loan. Some amount is also reserved to cater for emergency needs among the members.

vi) Legal status: Islamic saving group, like other saving group in SSA are mostly informal organizations that do not need registration or license. In some countries where they need some form of registration under the local authorities, the inability of the group to satisfy the registration requirement in terms of fees and documents often prevent them from registering because they do not have the money and documents to meet this requirement. However, contrary to other cooperatives, ISGs are not usually time bound. Therefore, members can opt out anytime if they feel they could not meet the obligation of being an ISG member.

vii) Security of Loan: Members' contributions are kept in ISG bank account at the community/microfinance bank. Members, who can do so, are encouraged to pay their monthly contributions into the group account directly and provide their evidence of payment to the treasurer for account reconciliation. The monthly contributions by members are kept in the group account at the bank and the record is kept with the treasurer. Where there is no presence of banks within the vicinity, cash contributions and record are kept in a well secured box.

viii) Shariah components of ISG: The main shariah component of ISG is absence of interest in their transactions. Because their main product is extension of loan, most of the well-known shariah compliant products are not in demand by ISG.

ix) Integration in wider system: ISG operates independently, though there may be some kind of informal relationship with parent ISG (inform of guaranteeing members of new ISG). There is no initial training like the other SG. There is also no external support, either from the government or donor agencies. ISG also lack access to continuous training and shariah input at minimum level.

Islamic Financial Cooperatives (IFC)

The Islamic financial cooperatives in SSA, like its conventional counterparts, are of two types: employment financial cooperatives and community cooperatives. An employment cooperative is a workplace based financial cooperatives that provide services that share the same workplace, employment or profession. These individuals are formally employed and are on salary, either from government or private organizations.

These types of financial cooperatives are mostly common in the urban areas where there are opportunities for white collar jobs. A community based cooperative, on the other hand, is a financial cooperative whose membership is open to every member of a particular community or geographical location, no matter their economic activities. This type of financial cooperative is found in both rural and urban centres (Athmer and Bosch, 2013). Employment based Islamic financial cooperatives were the first set of IFC in SSA. These were formed by Muslim professionals in their various places of work to promote members' consumptions. Being professional organizations, members usually have high levels of education and ability to understand the fundamentals of financial cooperative and even well versed in shariah principles or well placed to be able to obtain shariah information about Islamic transaction from the experts. Another advantage enjoyed by employment based financial cooperatives is the guarantee provided by the employer to retain loan repayment by gradual deduction from the salary of the borrower.

The case of community based cooperative is a bit different from what is obtainable in employment based cooperative. The first difference is that members are mostly self-employed, with jobs reflecting the economic activities present in that particular locality. The members are of different education levels, ranging from no formal education to post primary level. The loan obtained could be for consumption, enterprise creation and/or expansion. The loan extended to members requires collateral in form of solidarity lending which replaces physical guarantee. However, this is not without its own cost as solidarity lending requires nearness and regular visits of highly trained and supervised loan officers that will constantly monitor the borrowers before and after obtaining the loan. This makes the management of loan to be more demanding. Nonetheless, this type of cooperatives organization provides financial access to women in developing nations because they are more active in micro, small and medium enterprises in the informal sector[9].

Key Characteristics of Islamic Financial Cooperatives in SSA

i) Membership: Membership of cooperative is open to people that meets the criteria set by the IFC. In the case of employment based IFC, membership is open to people having the same profession or belonging to the same employer,mostly Muslims, because IFC always have a religious undertone, though that is not an

9. ibid

expressed condition. In case of the community based IFC, members come from different profession or self-employed individuals with different enterprises. Like the traditional FC, IFC is mostly limited to people of a particular geographic location, but there are some IFC that have members beyond a certain geographical location, even across different continents. This is possible as some of the IFC operates online membership and have members from different geographical locations.

ii) Ownership and Management: Islamic Financial cooperatives in SSA are member owned. The cooperative is run by executive committee that are elected by voting or selected through the shura committee. This is a tenured position, with stipulated number of years, ranging from one to three and is renewable only once. In most cases, the elected members perform operational task of IFC. This is because most of the IFC are still not yet in the position to employ people to run its activities. These tasks include record keeping, evaluating and monitoring members.

iii) Profile of the Members: The members of employment cooperative are somewhat similar as it is normally made up of people with similar profession or under the same employer. However, community based cooperatives have diverse membership with different employment portfolio and coming from the same or different geographical location as long as they can meet the membership requirement. There is no limit to the membership of the cooperative. These are mostly Muslims who come together to form parallel cooperatives organization in order to avoid having to pay interest as obtainable in the traditional cooperatives.

iv) Sources of Loan Fund and Administration of the Group: The loans given to members come from the saving by the members. The money used for running of the cooperative affairs comes from membership charges and profit made by the cooperatives in the businesses they involve in. IFC also makes money from partnering members in their business and setting up of cooperative owned businesses.Some of the IFC also collect Zakat from rich members with a view to distribute it among the needy. Some IFC give room for emergency donation to caterfor unforeseen circumstances among the members.

v) Products: Islamic Financial Cooperatives offer a number of products to its members. These include consumptive and productive loans via shariah compliant products such as Madaraba and Murabaha. The average loan is usually not more

than three times the amount contributed by the beneficiary for both consumptive and productive. There is always an initial period of contributions before a member can be entitled to loan (usually six months). The initial loan extended to the member is always equal to initial contribution on the probation period which is guaranteed by other members and payable over the period of between 3 to 10 months. This loan must be guaranteed by another member, which serves as security for the loan. Other benefits include relieves for unforeseen circumstances. This is irrespective of whether the affected member is serving a loan term or not. There is also Qardh Hassan loan for members from the money mobilized for zakat and other sources for members who need interest free monetary intervention. Members contributions also form their shares is the cooperative investments. Depending on how much profit is made, members are given dividends based on their shares.

vi) Legal status: Islamic Financial Cooperatives are legal institutions that need to obtain legal recognition from the appropriate authorities. They need to obtain operating license which the requirement depends on the rules and regulation for FCs in general depending on which country they are operating. Usually, this varies from country to country. IFCs like other FCs also come under the supervisory framework of the registering body or those assigned to do it on their behalf.

vii) Security of Loan: Members contribution is kept in IFCs bank account in banks. IFCs require professional management, good governance, sound internal control, external audit and sound regulations to protect members' contributions. This is to prevent fraud and misuse of members' deposits.

viii) Shariah components of IFC: The main shariah components of IFCs are absence of interest in their transactions, inclusion of shariah compliant products such as Mudaraba, Murabah, Qardh Hassan, etc.

ix) Integration in wider system: Most of IFCs in SSA are still operating independently though there are concerted efforts to form umbrella body that will bring all the IFCs in a particular region together. There has been no initial formal training for IFCs as in the case of other FCs, though there are efforts by individual IFCs to train its members on what IFC entails. There is also no external support, either from the government or donor agencies. IFCs also lack access to continuous training and shariah input at minimum level.

3. Regulatory Framework for Member-Owned Islamic Microfinance Sub-Saharan Africa

A regulatory framework refers to the law, regulations, guidelines, rules and code of conducts which entities being regulated are expected to comply with, together with institutions or structure in place to enforce it. Regulation of financial institutions is as a result of need for the system to boost funds mobilization and intermediation to promote efficiency in the distribution of capital and guarantee correct risk management, and depositors' protection. With reference to Member-owned Islamic microfinance, it refers to set of laws, regulations, guidelines, rules and code of ethics that it must comply with to safeguard the money of the members and comply with Islamic standards.

Reasons for Regulating Member-Owned Islamic microfinance institutions in SSA

There are a various reasons why member-owned Islamic microfinance institutions in SSA need sound regulations, some of which are listed below:

i) Regulations make it possible for Member-owned Islamic microfinance institutions to reach out to a large number of Muslims and others who are financially excluded because of non-availability/lack of coverage of non-interest taking microfinance banks and the charge of interest by traditional member-owned microfinance institution. In addition, it enables it to be able to attract government and/or donor support to boost private capital it has attracted from member savings.

ii) Regulations give room for proper and orderly development of the nascent institution.

iii) Most MIMIs begin as self-help organizations to assist members and have to seek alternative strategies to survival such as assessing donor fund.

iv) Regulations lay the foundation that enable MIMIs to move from being credit organizations to more commercial-oriented entities.

v) Regulationsensure financial sector stability.Although players in MIMI, like other microfinance sectors have little systemic impact, however, failure can have negative impact on the credibility of the financial sector.

vi) Regulations render legitimacy and confidence to the sector in order to attract long-term funding to the sector.

vii) Investors and donors need to have confidence in the systems in which the recipient of the funds operates in. Therefore, regulations give such confidence.

viii) Regulation sets minimum acceptable standards and gives confidence in MIMIs as a safe destination of donor or investor funds.

Regulatory Frameworks for Member-Owned Islamic Microfinance Institutions in SSA.

Given that MIMI has evolved as self-help initiatives by members to ensure their financial inclusiveness, there exist various regulatory structures that can be used to regulate it. These regulatory structures may be one or combination of any/or all of the following depending on what is obtainable in a particular country:

Primary Registrars

Microfinance institutions are registered legal entities under different pieces of legislation in many countries in SSA. These legislations include "The Money Lenders and Rates Interest Act", "Banking Act", "Cooperative Society Act" and "Private Voluntary Act". MIMI can come under any of these legislations depending on which country and what is obtainable. However, most of these need special provision to be able to cater for the non-interest component of MIMI as most of them are formulated based on interest bearing activities.

Network of MIMIs

There exist different national and international networks that give support to MFIs. These networks compose of both formal and MFIs. These networks serve a regulatory role as they develop performance standard for best practices that member organization are persuaded to meet. Inability to obey these laid down network norms by members mostly result in loss of benefits provided by the network for its members. These benefits include capacity building opportunities inform of training and system implementations, and financial services such as grants and guarantees. MIMI can also form local, national and international networks among similar organizations, both formal and informal, and play a regulatory role by developing sets of performance standards and best practices that member organizations should be encouraged to struggle to achieve. There should also be incentives attached to these norms, and failure to follow should also attract loss of benefits, such as training and systems implementation especially those relate to Shariah which MIMI are noted for, and financial services like grant and guarantees as in the case of traditional MFIs.

Self-Regulatory Body

This refers to a body that is founded, owned and controlled by MIMI members to be supervised. This can be an umbrella association of MIMIs in any of the countries. The

duty of these self-regulatory bodies will be to regulate the market conduct through the formulation of codes of conduct as well as other norms for member organizations. The primary responsibility of the self-regulatory body will be to monitor and enforce the agreed norms. However, experiences from MFIs show that this regulatory structure is not suitable for prudential supervision as most of member institutions normally lack the power to adequately sanction erring members.

Apex Institution

This is another body that can be used to regulate MIMIs. This involves having an apex institution or national fund that will be giving wholesale lending to the local MIMIs. Because of its role as an investor in MIMIs, that apex institution can naturally be used as a form of regulatory structure. This institution will assess and monitor the soundness of the MIMIs it extends loan to. Any MIMIs that do not meet the laid down standard can be sanctioned by denying it loans. This will make MIMIs to struggle to conform to the terms and conditions of the loans. These conditions may include: Financial soundness (adequate capital); achieving and maintaining acceptable profitability (if need be); ability to meet obligations as they fall due (liquidity); having a competent Board of Directors; having annual audited financial statements, and conforming to appropriate Shariah standard.

Delegated Supervision

This is an arrangement whereby financial supervisory agency of the government delegates its role as the direct supervisor of financial institution to an external body while it monitors and controls the body. This role can be given to an apex regulatory structure, an umbrella association of MIMIs religious council (or Shariah board) or audit firms. However, there are some issues that need to be clarified for proper implementation of delegated supervision. These, among others, include: who bear the cost of the delegation; in case of the need to withdraw authority from the delegated supervisor, what will be a realistic fallback option; and which authority will take charge to sanitize the system in case the delegated authority fails. These are important issues that must be settled before engaging delegated authority to supervise the activities of MIMI.

Financial Supervisory Agency

The central bank is the financial supervisory agency in most of the countries in SSA that is responsible for supervising bank and other financial institutions including MFIs. However, the focus of the central banks is more on deposit-taking MFIs and applies

non-prudential supervision on credit MFIs alone. Unfortunately, most of MIMIs only deal with members saving and do not take deposit from the general populace. Some central banks are also using minimum start-up capital for MFIs as a way of rationing prudential supervision. Sadly too, MIMIs do not meet this minimum start-up capital for it to fall under the MFIs that will come under the supervision of the central bank. The result of these is the lack of financial and human resources to supervise MIMIs effectively. The central banks could make special provision for this faith based financial institutions and other MFIs that are not deposit-taking or meet the minimum start-up capital to be able to monitor their financial activities.

Shariah Advisory Board

Shariah advisory board is a body that regulates the shariah activities of financial institutions. Where it operates, it either comes under the central bank or operates as an independent body. This body advises the central bank on the shariah issues regarding to Islamic financial activities. They look at the shariah compliance of any financial products/activities under Islamic financial institutions and advice appropriately. This body or similar one may be used to regulate the activities of MIMIs, especially in the area that has to do with shariah compliance.

4. Conclusion

Member-owned Islamic microfinance is a new self-help group by Muslims in SSA to ensure financial inclusion of the members. The importance of this initiative is underscored by the fact that more than 85 percent of the people in this region are un-bankable, out of which a reasonable number are Muslims who will not deal in interest. As laudable as the idea may look, leaving it unregulated may be a time-bomb for the poor members who put in their meager resources to assist themselves, if it fails. This calls for a sound regulatory framework that will not only protect the poor's fund, but will also ensure the continuity of the good idea.

This study has looked at the operations of the two commonly used member-owned microfinance organizations by Muslims- saving groups and financial cooperatives, with a view to understand their mode of operations. It has also discussed various regulatory frameworks that are available to regulate this nascent financial institution. It is hope that this study will gear up the stakeholder to do what is necessary and call the attention of researchers to research more in this area.

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