THE VIABILITY OF
INTEREST FREE CREDIT UNIONS
FOR MARGINALISED COMMUNITIES

By Nuala Ní Ghabhann

A dissertation submitted in part fulfillment of the degree of

Masters in Education

(Adult Education and Literacy for Community Based Development)

Faculty of Education

University of Manchester 1998

Table of Contents

Abstract

This dissertation was inspired from my belief in credit unions and the viability of community based interest free credit schemes. Throughout the period of my research, I encountered many individuals and organisations whose valuable input changed the course of my thinking radically, and made the road one of immense discovery.

My contemplation on interest free credit schemes has been born from the failure of mainstream banks to meet the needs of marginalised, or economically deprived, communities world-wide. Credit unions have attempted to address this alienation by being more accessible to such communities. However credit unions are limited in their efforts to address accessibility, by their use of interest, which excludes many, whether it be for religious, social or financial reasons.

The possibility of interest free credit unions is worth researching if the excluded are to be included and access for all is to be achieved. The theories supporting it are many, the most popular being rooted in economic proof, social conscience and/or religious doctrine. While historically interest was frowned upon, today it is mostly Islam that maintains this stance, and therefore it is from Islamic literature that I draw most of the theories. However the two case studies I have chosen to present, JAK in Sweden and the Coolie Credit Fund in India, are neither Islamic nor credit unions. This I feel adds great weight to my argument, as it demonstrates how interest free credit schemes can be adapted to suit the needs of communities in different social, religious, cultural and economic settings. Their viability is explored through the identification of their strengths and weaknesses. By drawing on these strengths and weaknesses, I conclude that interest free credit unions are viable if, and only if, an intersectoral approach to their operation is developed. Therefore, within an efficient and effective institutional framework that promotes socio-cultural

responsibility and works towards economic self-sufficiency, the viability of interest free credit unions can be achieved.

Introduction

Statement of the Problem

The basis of this study stems from the inability of marginalised or economically deprived groups in many societies to gain access to non-exploitative credit. Exploitative credit I believe, abuses the needs of the borrower, by charging excessive interest rates, or excludes potential borrowers on the basis of their present or past financial security. Exploitative interest rates can be legal or illegal with commercial banks being an example of the former and illegal moneylenders being an example of the latter. For the purpose of my study however, I have chosen to concentrate on the legal forms of credit, with particular emphasis on the mainstream banking sector.

Globalisation has resulted in mainstream capitalist banking becoming the norm worldwide. As banks are profit making institutions, they cater not for the poor, who are seen as high-risk, but rather for the better off in society. This has led to the polarisation of mainstream credit facilities with the rich gaining more access, while the poor find themselves increasingly alienated from access to such credit, and are therefore often forced to rely on illegal moneylenders who charge exorbitantly high interest rates, (Ford:1991). However the problem is not simply one of accessibility. The actual rates of interest cause problems for the economically marginalised. Such rates fail to take account of external factors, such as bad harvests, exchange rates or simply personal problems. Thus non-community based financial institutions such as banks, building societies and post offices ostracise those who do not meet the set criteria laid down by these institutions and who do not have a constant cash flow.

Credit unions were developed to address this problem. The first credit union was founded in Germany in 1849, by Freddrich Wilhelm Raiffeisen on the principles of Christian charity and welfare work. Credit unions seek to address the alienation of the more economically marginalised in society, by building themselves around a common bond that people share. Such bonds may be based on the community, on occupation, or on association. These common bonds ensure members know and trust each other. Credit unions are owned by all members and therefore seek to benefit all, by encouraging regular savings and offering social lending of affordable loans at reasonable rates.

However while credit unions come a long way in addressing the inaccessibility of credit for many marginalised groups, some would argue that they still fall short of meeting the needs of some. Such short falls may be due to the following:

A. Many credit unions, for example those in Ireland and Britain are slow to invest in community enterprises or micro-finance projects within the community.

B. Fixed interest rates on borrowing often act as a disincentive for entrepreneurs when more competitive rates are available from banks for productive borrowing.

C. The assurance of a fixed rate of return on loans by credit unions, (as is the case for mainstream banks), results in a failure on the part of the credit union to really investigate the viability both socially and economically of loan investment.

D. The existence of a fixed rate of interest on borrowing alongside the payment of dividends on profits means that when dividends are lower than actual interest rates, members can pay more for borrowing than receive for saving. This is important considering credit unions encourage people to borrow rather than withdraw savings.

E. The growth of credit unions reduces the likelihood of all members being known to each other.

F. The payment of interest on loans alienates Muslims and others who find the charging of interest offensive.

G. The credit unions’ demand for (1) compulsory savings, (2) a pre-required sum of savings before borrowing is allowed, and (3) regular loan repayments alongside continued savings makes membership difficult for those not assured of a regular income.

The above issues need to be addressed if all sectors in society are to have access to fair credit. This dissertation seeks to address these issues by exploring the viability of interest free credit. Such a system has strong historical and religious foundations but can also be built on from both a social and economic framework.

Methodology

The methodology I use is a series of literature reviews which trace (a) the failure of mainstream banks to meet the needs of many marginalised communities, (b) the establishment and spread of credit unions as an attempt to counteract this failure and (c) the economic, secular and religious arguments for interest free credit in order to further enhance the possible benefits of credit unions for communities. These reviews will be built on by analysing two case studies, which although not credit unions officially, are very effective interest free community based credit schemes. When I undertook this study, I was aware of the need within certain communities, whether due to ideological, social or economic beliefs, for interest free credit. My interest in this area was further influenced by LETS Manchester, which aims to set up an interest free credit union as part of their LETS community. Thus I set about identifying some interest free credit unions in order to compare their operation to their interest bearing counterparts. However while I seemed to have no problem identifying interest free credit schemes, after many lengthy attempts, I failed to identify any credit unions that did not give or take interest. Nevertheless I chose to continue by using as my case studies, two interest free credit schemes, as I believe credit unions can learn from such schemes, just as such schemes can learn from credit unions. Therefore by drawing on the strengths and weaknesses visible in the case studies presented, I argue on the viability of interest free credit unions.

Summary

In **Chapter 1**, I begin by reflecting on the historical background to money, interest and credit. I then place the above in the context of mainstream banks and look closer at the role of such banks in society; how they developed and how they are run, both philosophically and practically. I also question who exactly benefits from the banking system by looking at the failure of mainstream forms of banking in meeting the needs of economically marginalised communities. Within **Chapter 2**, I identify how credit unions were founded in an attempt to address this failure in the banking system. I detail the philosophy behind, and the practical running of credit unions. I also account for the success of credit unions in meeting the needs of many people excluded from accessing credit in the mainstream banking sector. However the failure of some marginalised people to access this credit is identified, and with this identification I move on to an alternative, outlined in the following chapter. In Chapter **3**, I develop an argument for interest free loans using historical, social and economic reasoning. I consider Islamic teaching on credit, and look briefly at the ideology behind such teachings. The economic workings of interest free banking in Islam are described in detail under three headings identifying both its benefits and limitations. **Chapter 4** analyses practical examples of interest free credit. I examine two case studies, and while neither of them are credit unions as described in chapter 2, they are nevertheless community based credit schemes which operate on a similar philosophy to credit unions. I believe they can therefore be used to promote the viability of interest free credit unions. The financial, economic and political viability of interest free banking is discussed in relation to the cases outlined, and the issue of accessibility is emphasised. Strengths and weaknesses with such projects are identified, by drawing on the limitations of interest free banking, and reflecting on the implications of such a system for individuals, communities and the world at large. Finally in **chapter 5,** I give a brief synopsis of my study and draw my findings together by re-emphasising the conditions under which interest free credit unions are viable. I conclude by presenting the limitations of my dissertation.

Chapter 1: The failure of mainstream banks to meet the needs of marginalised communities

In this chapter, I begin by discussing the historical background to money, credit and interest in order to understand their strength in society today. Following this I examine their relationship to the development of, and philosophy behind banking. I then consider and discuss the failure of many mainstream banks in meeting the needs of marginalised communities. By marginalised communities, I mean any community that is economically deprived, existing on either side of the North/South divide, in either an urban or rural setting. I look at the effects on marginalised communities of four main areas:

1) Global banking, that is any financial institution involved in large scale international lending such as the World Bank.
2) Investment banking and speculation, where individuals and institutions buy and sell stocks, shares and currencies simply to profit.
3) The policies of commercial banks, that is banks that deal with both business and individuals on a day to day basis, and,
4) How the criteria laid down by commercial banks for custom excludes members of these communities.

The emergence of money, credit and interest

Money emerged with the growth of trade and the specialisation and intensification of production. Money itself took many forms, such as cattle, shells, stones and metals, and is thought to have been in use for more than four thousand years, (Galbraith:1976). However the first recorded use of coinage, that is metals being made into coins of a predetermined weight, began in India around the tenth century BC, (Galbraith:1976). It surpassed the use of barter; the exchange of good for goods, as coinage offered a less complicated means of exchange, each unit representing a proportion of the commodities being exchanged. As trade and production increased, the demand for money grew, and with this demand, the need for credit evolved.

Credit in essence is a system of doing business by trusting that a person will pay at a later date for goods or services supplied, (Oxford Dictionary: 1994). As the concept of credit grew, so too did the world of the moneylender. The moneylender treated money not as a means of exchange, but rather as a store of wealth to be used as a factor of production, that is production of more wealth. Moneylenders achieved this by charging a price for credit. Such a price became known as interest, (Padmanabhad:1988), and as I will discuss in chapter 3, such interest was condemned in both the Christian Bible and Muslim Qur'an, long before it took on the standing it has in society today.

The Oxford Dictionary defines interest as "money paid for the use of money lent", (1994:147). Islamic law refers to interest as "riba", which literally means, increase, expansion, addition or growth, (Chapra: 1986). Per Almgren[1] develops the definition further by defining interest as "that part of one's income that derives from actual ownership" as opposed to income earned from work, (Hofford: 1998:1). Thus Almgren views interest as all forms of unearned income from ownership. Interest in essence, promotes the use of money as a store of wealth, and as a means of production.

The development and philosophy of banks

Banks became popular with the growth of credit and moneylending, as was seen in Roman times, and although for a period in the middle ages in Europe, religious objections to lending grew and the role of banks declined, this was soon overshadowed by their

[1] Per Almgren was one of the founding members of JSK Sweden, an interest free credit society, which will be discussed in Chapter 4. He went on to found Nordiska Sparlan Ekonomisk Forening, which operates in Sweden in a similar way to JAK.

revival with the age of Renaissance, (Galbraith:1976). This western form of banking developed and eventually spread throughout the globe with the growth of trade and the spread of imperialism.

Banks are not owned by their members or customers and therefore do not seek to empower their customers. Rather banks are private financial institutions with the sole aim of profit making. Profits accrue from the charging of interest on loans and fees for services rendered. Such profits are not shared out in dividends among the customers nor are they used in ethical investment or for community development. Profits are instead used simply to increase the wealth of bank owners.

The failure of mainstream banks to meet the needs of marginalised communities

Banking has failed marginalised communities world-wide. This is evident from:

1) The effects of global banking on marginalised communities,

2) The effects of investment banking and speculation on marginalised communities.

3) Commercial banks policies and their effects on such communities and,

4) The criteria laid down by commercial banks for custom and how this excludes members of these marginalised communities.

I now propose to look at each of the above in more detail.

1) Global banking today cannot be viewed in isolation. It goes hand in hand with the capitalist system, which dominates the present global economy. Paul Gillespie of *The Irish Times,* views globalisation as “a conspiracy against the world’s poor and relatively weak by privileged players,” (1998:10). The control of world money markets is in the hands of a few, thus marginalising the economically deprived even more.

Investors in this global market regard fiscal rather than social returns as their priority. Therefore large scale projects or projects yielding high profit margins in the short term are chosen for investment over projects with a high social return. This leads very often to an emphasis on the extraction of natural resources for consumption, the building of nuclear plants or the development of large scale production plants, all with little regard for their social and environmental costs, (Hofford:1998). According to Gillespie, international companies are capable of "uprooting investments thereby disrupting or destroying local communities" (1988:10), by relocating to more profitable parts of the world. He cites the Asian Economic crisis (in 1998) as an example of this. Banks do not place an emphasis on investment in local community development, or social investment which not only considers the economic benefits to the community and the investors, but also the social impact it will have on the community. Therefore investment in projects which would benefit marginalised communities such as education, training, or simply the building of infrastructure within such communities, tends to be overlooked.

The development of economic globalisation, has not just seen an increase in the marginalisation of communities, but also countries, and even to some extent continents. As control of banking falls into the hands of a few, so too does control of credit. Control does not just extend to who receives credit, but also for how long. This is evident from the number of countries under the grip of the World Bank. Such countries have agreed to implement Structural Adjustment Programmes (SAPs) laid down by the World Bank in return for financial lending to alleviate their economic crisis, a crisis evolving in part from the effects of imperialism and the economic domination of the leading capitalist nations. However such financial lending carries with it high interest repayments, which it has been proven hold the borrowing countries at ransom by the World Bank. Onimode argues that such SAPs are politically based attempts on the part of the dominant nations of the world to "recolonise Africa", (1997: MD 234 Video). According to Albee and Gamage, a number of studies have identified how the implementation of Structural Adjustment Programmes have added fuel to the growth of urban poverty world-wide, (1996).

Education and social spending within these countries are drastically reduced to help meet repayments, and investment in the growing of cash crops takes place, (Onimode:1989). Such cash crops are sold externally at less than the market price, leaving insufficient land to grow domestically consumed crops. Thus the necessity for imports arises, which in itself causes a greater need for financial help. Inflation and job losses follow, and as usual it is the more marginalised section of the community which suffer, (Onimode: 1989, El-Tom: 1994, Vickers: 1991).

2) The importance of speculation and the power of international investors cannot be ignored when reflecting on global banking. As money has become a commodity, speculation on its value has become a source of income for many, but a cause of hardship for most, (Galbraith: 1976). Within the global banking system there are those who speculate on world markets with commodities and exchange rates, in order to profit. Such speculation together with the withdrawal of investment from certain areas, causes instability in exchange rates, inflation and unemployment. This was evident by the Wall Street crash of 1929, the depression throughout Europe in the 1930's, the oil crisis of the 1970's and more recently with the crash of the Asian economic tiger in 1998 and the continued instability and growth of debt and poverty in many nations of the South. Unemployment and inflation lead banks to withdraw credit, as people find it increasingly difficult to meet loan repayments. Bigger debtors are given more leeway by the banks as a default on their part would be detrimental to the bank itself. Therefore banks tend to be less lenient with small borrowers, who are usually the more marginalised in society. Such pressure itself is often enough to force default and bankruptcy. Thus banks, working only for a fiscal return, favour the rich and isolate the poor. The polarisation of wealth has become today the domain of a small percentage of the world's population.

3) The main purpose of banks is to make profits, and therefore what they regard as high risk borrowers are rarely entertained. The policies of commercial banks within communities tend to favour a high profit return over providing a service to the

community. This was evident in Britain in the 1980's, when national banks, that failed to attract a high percentage of customers within certain communities because of their strict credit laws, tended to close down these community branches and move elsewhere (Daly and Walsh: 1988, Quinn and McCann:1997, Ford: 1991). Such policies on the part of the banks reflect their disinterest in understanding why such communities do not avail of the banking service.

The streamlining of banking services in recent years, such as automated teller machines, credit and debit cards and cheque card accounts, in order to cut costs and achieve higher efficiency, has further escalated the problem of exclusion, (Quinn and McCann: 1997, Mayo: 1996). Daly and Walsh predicted this polarisation of the banking services available to the "rich" on the one hand and "poor" on the other due to this streamlining, as the "poor" become more anonymous and are seen on paper as too high risk, (1988).

A survey carried out by Quinn and McCann highlights a decline in the numbers of Travellers in Dublin, Ireland; holding accounts with banks, while membership of credit unions remains steady, (1997). Daly and Walsh report on how in Ireland only 30% of the unemployed have bank accounts, (1988), while Ford draws attention to the fact that in 1989 more than 11 million adults in Britain did not hold such accounts, (1991). But what are the criteria used by banks for lending and why are such communities not availing of this service? I now discuss some possibilities, thereby reflecting on why I feel banks are failing such communities world-wide.

4) As the main aim of a bank is to make profit, it follows that banks are only interested in those who can help them achieve such profits. Banks give credit only to the credit worthy, (Mayo: 1996). Thus one must have a history of credit or a source of collateral to be used against the loan. Banks measure the risk factor in relation to a person's financial standing, such as their profession, income and their assets, (Quinn & McCann: 1997: Devereux and Peres: 1990). However economically marginalised people very often have

neither a credit rating, nor collateral because they cannot obtain legal credit to begin with. This is evident by the fact that low income households avail of bank credit considerably less than affluent households, and the former's use of it tends to be from necessity rather than choice, (Ford: 1991).

To further escalate the problem within marginalised communities, female headed households tend to be viewed by banks as less creditworthy than their male counterparts, particularly when seeking support for income generating projects. In some societies, banks may even require the signature of a husband or male guardian before a woman is considered for a loan. As many marginalised or low income communities tend to have a higher than average rate of female headed households, the problem of access to credit is compounded, (Albee and Gamage: 1996, Devereux and Pares: 1990, Hogan: 1998).

Banks work to attract high investors and secure debtors by offering lower interest for higher borrowing and renegotiating loan repayment if such high-borrowers fail to meet the repayment. Low scale borrowers and savers do not really assist in the profit making of a bank. Thus banks rarely focus on the needs of such people and should a low scale borrower have difficulty in repayment, the banks tend not to renegotiate, as writing them off as a bad debt will not be detrimental to the bank. Thus some small scale borrowers or businesses, who fall into periodic difficulty, are more likely to become bad debtors simply because the extension of credit and renegotiation of repayment is not as generous for them. This leads to inefficiency within the community, where unemployment increases and services or goods provided locally may cease to be available.

The exclusion from the banking sector, of the more marginalised communities within society can often be brought about more subtly. For example, application forms are too complex or a basic current account may be opened for the customer without the granting of a cheque guarantee card, (Ford: 1991). This inaccessibility to the banking sector for many communities is evident in Quinn and McCann's survey where 34% of respondents, when asked of their credit needs, responded that they would wish to have access to a credit facility with money advice. Their exclusion from this form of credit is further highlighted by the fact that 8% wish simply for equal access to what is already there, (1997).

The unequal access to credit very often contributes to an increase in the number of people within marginalised communities availing of high-cost alternative credit such as illegal moneylenders, (Ford:1991). This is reflected in one of the findings of Quinn and McCann on access to credit for the Traveller community in Dublin, Ireland, in which 50% of respondents were recorded to have taken loans of over Ir£100 from moneylenders while 0% had borrowed from banks, (1997). Such a finding is supported by a similar survey carried out in May 1988, by Daly and Walsh, in an economically deprived Dublin suburb, where less than 1% of those interviewed had borrowed from a bank while 14% had borrowed from moneylenders, (1988). It is also worth noting that in general women tend to borrow more than men. Quinn and McCann found that of the 13 loans over £100, women accounted for 10 of them. This reliance on moneylenders by either women or men drives individuals and communities further into the poverty trap. Such moneylenders have been known to charge APR interest rates of up to 1000% on loans and, to inflict physical and/or mental violence on the borrower if repayment is not met, (Quinn and McCann: 1997, Daly and Walsh: 1988, Ford 1991).

Finally banks exclude certain sections of society such as, Muslims from availing of their service. As we will see in chapter 3, Islamic law preaches against the payment and receipt of interest. Thus in many Islamic countries such banks described above, fail communities. This is evident of Britain today, where Muslim communities have grown to become a majority in certain areas, yet banks within these areas, have made no attempt to address the issues surrounding their beliefs.

In conclusion, within this chapter I have looked at the failure of banks to meet the needs of marginalised communities world-wide. The emphasis on profit and expansion by the mainstream banking sector, (global banking, international investment and speculation, and commercial banks) serves to impact negatively on such communities. This causes the exclusion of the economically poorer sections of societies from gaining access to credit. Furthermore the charging of interest can compound this problem and in addition exclude communities who disagree with it for either, social, cultural, economic or religious reasons. The credit unions seek to address this exclusion and it is with regard to this that chapter 2 focuses.

CHAPTER 2: Credit Unions and their attempts to meet the needs of Marginalised Communities

In this chapter I look at the credit union movement as an alternative to mainstream banking in addressing the needs of marginalised communities in societies throughout the world. I begin by detailing the philosophy of the credit union movement comparing it to that of the mainstream banks, and then move on to present a background to its establishment and spread to many parts of the world. I discuss how credit unions are set up and the training involved in order that they may be sustainable. The financial viability of credit unions is then examined by looking at both the positive and negative aspects of these saving and credit co-operatives. Finally I draw out issues that need to be addressed in chapter 3 when I propose an alternative to the credit unions present system of charging interest on borrowing and paying interest on savings.

By the credit union movement, I mean, community co-operative banks that fall under the body of the World Council of Credit Unions, (WOCCU), the umbrella organisation that advises and supports many credit unions world-wide. It is worth noting however that informal credit and savings schemes based on a similar philosophy to credit unions and run in a similar way, exist and have existed in many communities world-wide external to the WOCCU. However because I believe in the ability of the WOCCU and its affiliates to assist in the empowerment of marginalised communities, for the purpose of this study I have chosen to focus on the viability of developing interest free credit unions. In keeping with this I now propose to look at the philosophy of the credit union movement as seen by the WOCCU.

The Philosophy of the Credit Union Movement

As was seen in Chapter one, mainstream banks have failed and are still failing communities world-wide. Credit unions came into being in an attempt to address this failure by allowing access to credit for marginalised and low income groups world-wide, thereby assisting in the improvement not only of the economic, but also the social well being of its members. Thus their philosophy was rooted, not in profit making as is the case in mainstream banks, but rather in "social lending" where credit is granted on social grounds and for the overall well being of members and the community, (Albee and Gamage: 1996, de Stemper: 1987, ILCU: 1996, Mayo: 1996).

A credit union is a financial co-operative where people pool their savings in order to make loans to one another. There are 71,000 registered credit unions world-wide, serving 95 million members, (The Wales Co-operative Centre: undated). The WOCCU represents the credit union movement world-wide, and works to develop, support and nurture new credit unions globally, (ILCU: 1995). Credit unions are owned and democratically controlled by their members to benefit themselves by meeting their financial needs, (Albee and Gamage: 1996). This is in contrast to mainstream banks, as previously discussed, where members of such institutions are customers only. Ownership or membership of credit unions is opened to anyone over the age of sixteen, once they fall within the common bond laid down, and pay the membership fee which in Ireland and Britain is not more than £1, (ILCU: 1995, de Stemper: 1987, Mayo: 1996).

A common bond is something that all members of a particular credit union have in common, (Albee and Gamage: 1996, de Stemper: 1987, Skully and Ho: 1993, Mayo: 1996). The most obvious types of bonds are:

- **A Community Bond;** where all members / owners live and sometimes work in the same geographical area.

- **An Occupational Bond;** where all members / owners work for a particular employer, or in the same occupation, for example all workers within a hospital, or all nurses in a district.
- **An Association Bond;** where all members / owners belong to a particular association or society, for example, a church, a club or a trade union.

The existence of a common bond within a credit union is essential as it allows that all people know and trust each other, and have the benefit of the community and its members at heart. Such a system of operation is in complete contrast to mainstream banking detailed in chapter 1, which see profits as their first priority. Thus the credit union can make credit judgments on people's character and personal records, rather than on their financial history or their "risk" factor. "Truth in Lending" with no hidden costs is the policy of the credit union movement, (ILCU: 1995). Common bonds also ensure that the credit union is physically accessible to its members, whether it is in a community, place of work, or association. Such accessibility is not taken into account by the mainstream banks when establishing business, unless inaccessibility will affect their profits. By assisting the individual, the credit union ensures that it extends its vision of social justice not only to the borrower, but also to the community at large, who too will benefit indirectly from the improvement in the borrower's life. Credit unions also place a high emphasis on the education of members for their economic, social and cultural well-being.

Building on the philosophy of social justice, credit unions are non-profit making organisations, and as such their main aim is the improvement in the standard of living of their members / owners, and not the increase in profit for the benefit of the institution. Thus credit unions seek to empower their members by providing them with access to capital for production purposes or simply for survival or consumption.

In keeping with the policy of "Truth in Lending" loans are made at attractive fixed interest rates, the interest being charged to cover the cost of interest on savings and administering the system. Such fixed interest rates again contrast sharply with the banks. Both the Irish League of Credit Unions (ILCU), and the Association of British Credit Unions (ABCUL), the umbrella groups for credit unions in both of these countries, recommend a fixed interest rate of 1% per month on a reducing balance, or 12.6% Annual Percentage Rate on loans. However some credit unions charge even less than this. Loan applications are dealt with strictly on their own merits, with repayment designed to meet each borrower's personal needs. Should the borrower's circumstance change the credit union is happy to renegotiate the terms in order to suit both parties.

Credit unions therefore promote credit. However in order for such credit to be financed they must also address the issue of savings. Savings are necessary to build a resource of capital for lending, or a "loan fund", which provides opportunities for the improvement of the standard of living of its members / owners, and consequently the community as a whole. As soon as members begin to save, they become shareholders with each unit of money saved adding to their overall share-holding. For example in Ireland and Britain, £1 saved is equivalent to one share. Each unit of currency saved, or share added to, entitles the member / owner to a share or dividend in the overall profit of the credit union. In contrast, as we saw in chapter 1, very few banking accounts give customers a return on savings. Such dividends received from the credit union accrue from interest on members' borrowings, and returns on credit union investments after credit union expenses have been covered. Dividends or share profits are paid in proportion to savings. Thus the greater the accumulated savings or loan fund within a credit union, the bigger not only the profit-share or dividend each member receives, but also the availability of money for lending. Should the members agree, profits could also be used to make grants to community groups and charities, thereby extending benefit to the community further. This once more brings into focus the fundamental difference between banks and credit unions, with the former focusing on increasing the power of the institution, while the latter focuses on building and empowering the community.

Credit unions therefore encourage members to continue saving even when they are repaying a loan. Likewise members are encouraged to borrow rather than withdraw their savings or shares. This ensures that dividends remain high and the "loan fund" does not become depleted, thereby allowing others to continue to borrow. Such a system of operation promotes mutual co-operation for the benefit of all.

But how exactly is a credit union managed? As already stated, all members who save within a credit union are also owners. Therefore all have a voice in the running of the credit union, unlike customers of mainstream banks. In keeping with this ethos of democracy, each member and not each share, is entitled to one vote when general meetings take place and issues are addressed. Members elect the Board of Directors and the Supervisory Committee to oversee the running of the credit union. Elected officials are voluntary in nature and should only receive expenses for fulfilling their duties. Non-elected members too are encouraged to become volunteers to help in the day to day running of their co-operative, (Skully and Ho: 1993).

While one may believe that the credit unions vision of social justice ensures security of savings, most credit unions nevertheless insure member's loans and savings at no extra cost to themselves, thus displaying a professionalism in banking equal to any mainstream bank. Such insurance is paid from the money generated from interest on loans. In countries where credit unions exist, laws are set down on the running of financial institutions with which the credit unions must abide. This helps secure members' savings. Confidentiality within transactions and regular independent external auditing help ensure that credit unions world-wide operate within strict professional guidelines.

A look at the Background and expansion of the Credit Union Movement world-wide

The credit union movement developed out of the co-operative activities of nineteenth century Europe, which evolved as a by-product of the Industrial revolution and the growth of capitalism, when money and credit began to take on an increasingly important role, (www.cu.org/cunist.htm:1998, ILCU:1996:1). Such credit however was inaccessible to the vast majority of the population, many of whom lived in abject poverty. Probably the most well known co-operative in Britain was the Rochdale Co-operative Store, set up in 1844. Here a group of workers bought shares weekly to accumulate capital, in order to buy goods at less than the retail price and sell them on to members at a savings. Members were paid interest on their shares and received dividends at the year end. As with today's credit unions, rules were based on democratic principles where each member was entitled to one vote regardless of the quantity of shares owned, and dividends were divided according to shares held, (ILCU: 1996:1, ABCUL: 1998:2).

In Europe around this time, Co-operative Credit Societies were also being set up. In 1850, Hermann Schulze-Delitzsch founded his first Co-operative Credit Society in a small village, which is today part of modern Germany. His initial capital of $140 was contributed by a group of friends. However, far from being a charitable organisation, it was identifiable in that each borrower joined the Society and contributed a monthly fee towards its capital. Loans were made strictly for productive purposes for the benefit of the whole community, and were granted on the good character of the person borrowing, rather than on their social or financial background, (ILCU: 1996:1, ABCUL: 1998:2, Douthwaite: 1996). In this way as we will see in chapter 3, Schulzes-Delitzsch's Co-operative reflected the principles preached by Islamic Economist, with social lending being the basis of all credit, and the purpose of such lending being the enhancement of not just the individual but the community as a whole, through the promotion of economic self-sufficiency, (Masood Khan:1985, Mannan:1989, Qureshi:1991, Douthwaite:1996).

The years 1849 and 1854 saw the first of F.W. Raiffeisen's credit unions in Heddesdorfer, which is today a part of Germany. These credit unions differed from Schulze-Delitzsch's Credit Co-operatives in that while Schulze-Delitzsch based his motives purely on profit making to promote economic self-sufficiency through self-help, Raiffeisens ideas were based on Christian charity and brotherly love born from his distaste of moneylenders, who he believed "fastened like a vampire on the rural population", (Mayo:1996:10). Today's credit unions would tend to incorporate both motives, (ILCU: 1996:1). Raiffeisen, unlike Schulze-Delitzsch promoted the idea of withholding dividends until a reserve fund of capital had been established, and it was on this principle that Raiffeisen ensured his Co-operatives economic sustainability, a sustainability that has stood fast with the credit union movement up until the present. It was also Raiffeisen who preached the importance of a common bond among members in order to develop a sense of mutual co-operation. As in the Rochdale Co-operative Store, the rules of the above co-operatives, founded by Schulze-Delitzsch and Raiffeisen, were laid down along democratic lines, and it is this in itself which formed the backbone of the credit union movement of today, (ILCU: 1996:1). Once the seed had been sown, the idea continued to grow and spread, with the basic principles remaining that: (1) only people who were credit union members could borrow, (2) loans would be made for prudent and productive purposes, and (3) a person's desire (character) to repay would be considered more important than the ability (income) to repay, as they were after all borrowing their own money and that of their friends, (www.cu.org/cunist.htm:1998). It was from the efforts of both Schulze-Delitzsch and Raiffeisen that credit unions began to spread throughout Europe. By the turn of the century they were popular not only in Germany, but also Italy, France and Austria.

The case of Ireland deserves some mention here, as today Ireland can boast that 1 in 3 of its inhabitants are members of a credit union, (ILCU: 1996:2, Douthwaite: 1996). Credit unions were not established in Ireland until the 1950's when the country experienced extreme economic depression, high unemployment and mass emigration. Moneylenders prospered from charging exorbitant interest rates, (ILCU: 1996:1). The credit union concept was introduced to Ireland by Nora Herlihy, a teacher, (ILCU: 1996:1), whose home in Dublin was used as a campaign office to promote the idea. The WOCCU encouraged Nora and her colleagues, Séamus MacEoin and Seán Ford in their efforts. They held social events to fund raise in order to cover the administrative expense of their campaign. By 1960, when the Credit Union League of Ireland came into being, there were only 4 credit unions in operation in Ireland. By the end of that year, the expansion of the credit union movement in Ireland was being termed "an explosion" in American credit union circles, (ILCU: 1996:1:9). In 1962, Derry Credit Union was established, its first treasure being John Hume, (the present leader of the SDLP political party who has played such a vital role in the search for peace in Northern Ireland). In its first year of operation, Derry Credit Union enrolled 400 members, a number which according to the ILCU, no credit union has succeeded in attaining since, (ILCU: 1996:1).

The growth of the credit union movement did not just occur in Europe, as can be seen by its rapid spread throughout the rest of the world. In 1900 Alphonse Dejardins organised the first credit union in Canada, its first savings deposit being the sum total of 10 cents. Dejardins continued to establish many more credit unions including the first one in the United States of America in 1909, (ILCU: 1996:1, www.cu.org/cunist.htm:1998). He was supported strongly in the U.S.A by a Boston Merchant, Edward Filene. Credit Union membership in North America grew steadily and its success can be seen by the fact that no credit union defaulted during the Wall Street Crash of 1929, (Douthwaite:1996). More than 60 million inhabitants in the USA today belong to credit unions, while in Canada, the number stands at 9 million, (www.cu.org/cunist.htm:1998). It is interesting to note that Edward Filene, whose ideas on social lending were seen to be "revolutionary" for his time, and who continued on to build a trading empire which is still in existence today, had been introduced to credit unions when visiting rural India in 1907, (www,cu.org/cunist.htm:1998). I feel this is a point worth noting, in view of the fact that the industrialised north of which the USA is a leader very often likes to export what it sees as its novel ideas to the so-called developing world of which India is part. Today credit unions, both members of the WOCCU and those existing outside it, continue to play a prominent role in evolving community banking in the Indian subcontinent. The latter I will clearly show in chapter 4.

In Britain the establishment of a new credit union takes place almost weekly, (Douthwaite: 1996). The Moss Side and Hulme Credit Union in Manchester was set up as an alternative to the illegal moneylenders to whom many residents of this economically marginalised community were paying interest on loans of up to 300%. According to Reverend Malcolm Lorimer, Chairperson of the union, their success can be attributed to the trust between members which is promoted by a common bond, (*Manchester Evening News:* 1998). In Colombo, Sri Lanka, women's credit unions, otherwise known as Kantha Sahayaka, have grown rapidly since their foundation in 1989. In 1996 they were reaching over 3,600 women. These credit unions have been prominent in lending to assist in improvements in housing conditions and in the setting up small micro-enterprise projects, (Albee and Gamage: 1996). In 1970 the WOCCU came into being, and has helped spread the movement further by assisting, supporting and developing ideas within communities world-wide, (ILCU: 1996:1). Credit unions today exist in every continent of the world with a total of 84 countries being affiliated with the WOCCU, (Big Issue: 1998). The impact of credit unions has been far reaching, and it is in view of this, that I will proceed on to reflect on the positive aspects of them.

A reflection on the positive aspects of the credit union movement

Credit unions show great strength in their ability to organise. They emphasis education through awareness raising for members, staff, and thus the community at large in order to improve their economic, social and cultural well being. Credit unions recognise the importance of running a well regulated and lawful business, and have therefore adopted some of the managerial traits of mainstream banks. This is evident from the tight administration under which credit unions operate, the high value placed on training staff, and the security they place on savings through insurance. Training, if at all possible takes place locally and includes knowledge of the credit union structure, cash handling, recording of membership, setting of policies, and duties and responsibilities of staff, (ABCUL:1998:1) Members of credit unions are owners unlike in mainstream banks, where they are simply customers. They have a right to inspect the credit union accounts and reports, to vote at the Annual General Meetings and to change democratically the rules of the credit union, (ABCUL: 1998:1). This ownership allows members to have a voice in the running of the credit union, through volunteering labour, by voting on resolutions and voting for the Board of Directors and the Supervisory Committee. This in itself promotes a unity among members in their desire to see the credit union succeed. By ensuring that members have a voice, credit unions are also ensuring that empowerment through education for economic sustainability takes place.

Credit unions whenever possible ensure that their staff are by and large volunteers. Such a system assists in cutting costs and also helps the development of a social conscience within the community. This contrasts to the staff of many mainstream banks, who would feel no social obligation to their employers.

Community development is seen as paramount to the teaching of the credit union and this is achieved through the promotion of an understanding of their system by freely sharing advice on savings and borrowing. In order to attract savings, the idea of a loan fund is promoted by credit unions. All savings are paid into this loan fund and can then be used by other members for borrowing. This helps promote a sense of social responsibility. By paying dividends on savings, credit unions further promote a sense of community, where the more a member saves, the higher their dividend.

The credit union policy of "Truth in Lending" as detailed above, is based on a policy of loan applications being dealt with strictly on their own merit, and reasonably fixed interest rates being charged regardless of how turbulent the economy is, (Big Issue: 1998, Douthwaite: 1996). As credit unions are owned by members, they are more flexible, and more willing to negotiate terms if a borrower finds themselves unable to pay at the agreed rate. In some instances, depending on profits, the credit union may even give rebates on interest to borrowers at the year end. Such a fair and affordable system of borrowing prompted a member of Maleny and District Community Credit Union LTD in Australia to state that, "the credit union is the lifeblood of the community....many of the people who borrowed from it would have been unable to get loans from any other source, (Douthwaite: 1996:376). This opinion is shared by members of credit unions world-wide. I myself was a recipient of this, while a student in Ireland, when a loan from the credit union was used to pay my tuition fees. In a recent survey carried out among Caherdavin Credit Union members in Limerick, for REVIEW, the ILCU's bimonthly magazine, 40% of those interviewed deal exclusively with the credit union in preference to other financial institutions, (ILCU: 1998:2). Caherdavin's Credit Union began with 11 members in 1976 and 22 years later; this figure has grown to over 11,000, (ILCU: 1998:2).

Community Development is also promoted by the implementation of "The Common Bond" in membership. Such a system that promotes working towards economic development within a community is only possible from the credit unions insistence of a common bond. The common bond helps build trust within the credit union, which in turn, Douthwaite believes, ensures a lower that average rate of bad debt among members world-wide, (1996). Community development is also promoted through increased accessibility for the individual to borrowing at reasonable rates. In Ireland, credit unions work closely with government sponsored, "Money Advice and Budgeting Services", (MABS), in order to relieve people from the hands of the illegal moneylender. "Special Budgeting Accounts" are available within the credit union, for those in debt in order that they may save weekly for the repayment of bills. With the help of the credit unions and

MABS, debtors prioritise creditors within a repayment schedule in order to make repayment more manageable, (Hogan: 1998). The strength of credit unions in this area is evident from the findings of Quinn and McCann; of the 100 Travellers interviewed 80 preferred to have a credit union as their source of saving and borrowing as opposed to 8 who chose a Traveller bank, (1997).

Credit unions do not just assume that community development takes place from an improvement in their members standards of living. Credit unions pride themselves on their contribution to community projects. The Caherdavin survey mentioned above concluded that 90% of those interviewed agreed that the credit union is significantly involved in local community development (ILCU: 1998:2). The WOCCU and many national credit union bodies assist in the cost of setting up new credit unions. This can be seen in the case of South Africa, where the WOCCU and the ILCU have donated funds at both national and local levels. The ILCU's International Development Foundation has played a major role in the last few years in promoting the establishment of credit unions in many countries which are experiencing extreme economic hardship. This can be seen in Albania, Bukino Faso, The Gambia, Uganda, India, and Nepal to name but a few. Very often the ILCU works in conjunction with NGO's and development organisations in order to assist in the successful establishment of local initiatives (ILCU: 1996:2). In Britain many local authorities also help in meeting initial costs for new credit unions under their jurisdiction. Local business people and charities may also help in the establishment of credit unions which is in itself very beneficial as it ensures that input comes from inside and not outside the community, (ABCUL: 1998:1).

Community development however could also be promoted by credit union funding of micro-enterprise projects. Credit unions do not tend to promote borrowing for such enterprises. This leads me to reflect on some negative aspects of the credit union movement, which in turn will open the way for my discussion on the possibility of an interest-free, profit-sharing credit union as an alternative to the present system.

A reflection on some criticisms of the credit union movement

The lack of involvement in micro-finance projects within the community

According to Douthwaite, “credit unions are not geared to lend to small businesses, and most of their directors and members think in social-service terms, rather than economic development terms”, (1996:128). This lack of focus on production stifles the possibility of community based production initiatives being developed. However the possibility of credit unions investing in such ventures, and the effect such lending can have on communities is evident from Tallow Credit Union in Ireland. Tallow Credit Union has placed a particular emphasis on lending to promote local business initiatives, and its success in doing so is evident from the many micro-enterprises that have sprung up. Sheila Ryan, the honorary secretary, attributes its success to its small size and the fact that it knows its members; “we know the seed and we know the breed, and if the family is honest you can be fairly sure the children will be too”, (Douthwaite: 1996:131). However Tallow credit union has not just invested in micro enterprises, but has also invested in enterprise training, thus offering potential small scale business people a chance to learn the skills needed to ensure sustainability. The outcome of such training has been the establishment of a secretarial services company, a plastic display goods firm, and a picture framing business to name but a few. Such an attempt at promoting community enterprise on a small scale is similar to the teaching of Islam, which I will look at in Chapter 3. The success of Tallow credit union should be noted by other credit unions as it has proved the viability of undertaking such lending.

Fixed Interest Rates: a disincentive for entrepreneurs

The lack of emphasis by the credit union in lending for production, is a two edged knife in that by focusing its attention on consumer credit, it guarantees a fixed rate of return, regardless of the risk the borrower takes. Sheila Ryan of Tallow Credit Union defends this fixed rate of interest by arguing that people like to know what interests rates will be in the future. However standard financial institutions very often offer lower than average rates for business / production loans. For instance in 1994, Irish credit unions were quoting entrepreneurs twice the rate of interest being quoted in some mainstream banks, (Douthwaite: 1996). Ryan criticises the banks reduced interests rates on production loans as she feels the risks involved in such loans are greater than consumer loans, and therefore warrant higher interest, (Douthwaite:1996). However I feel this argument can be quickly nullified. Production loans do not just benefit the producer, but have a spin off effect in the community. If credit unions were to spend more time actually researching the viability of business proposals, and offered loans on a profit-share basis as will be detailed in chapter 3, rather than on interest, maybe both credit unions and entrepreneur could work together for the benefit of both.

Fixed Interest Rates: a disincentive for financiers to investigate the viability of investment projects

The importance of research into investment projects is clearly laid out in chapter 3. Philip Flynn a veteran of the Irish credit union movement believes the credit unions could do more for economic development, and that the lack of initiative may be due to a "lack of self-confidence, imagination, vision, and understanding", (Douthwaite:1996:132). This may also be a factor in the credit unions insistence in maintaining a fixed rate of interest. Islamic economists as I will discuss in chapter 3, promote an alternative in the form of an interest free profit-sharing system. However they emphasis that it can only succeed if both the entrepreneur and financier have weighed up all risks thoroughly. From this I would argue against Ryan's fear of business loans holding a higher risk factor. Rather, in view of the fact that the entrepreneur will share the profit with the financier, it stands to reason that the financier will only invest if they are quite confident of a good return. Therefore profit-sharing after careful research is likely to yield a far better return for the financier, than the minimum fixed rate the credit union charges.

The case of Interest on borrowing being greater than share of Dividends

As stated earlier, credit union members earn dividends on savings rather than a fixed rate of interest. Also stated was the fact that most credit unions urge customers to borrow on the strength of their savings as opposed to withdrawing their savings. Douthwaite draws our attention to a likely situation where dividends received are smaller than interest paid. In such a case, a member who borrows, rather than withdraws their savings for use, is in actual fact paying to borrow their own funds, (1996).

The drawbacks of the growth of Credit Unions

The credit union movement's conservative views on lending for micro-enterprise projects may also be due in part to their success with consumption loans, and the corresponding growth many credit unions have experienced. As with every success story however, there must also be some drawbacks. In the USA and Canada for instance, while membership of credit unions has continued to grow, the number of credit unions has actually declined. This is due to the merging of many small credit unions into larger ones, (www.cu.org/cunist.htm:1998). Such merging is not in keeping with the philosophy of a "common bond". Instead these larger credit unions become more impersonal and are likely to be more bureaucratic in order to keep the union running smoothly. How then it is possible for each loan to be granted on its own merit, as is the teachings of the credit union? Sadly, as credit unions expand, and members are not known to volunteers, it is more likely that loans are granted to members on the financial stability and history. It is worth reminding ourselves that Sheila Ryan attributes Tallow Credit Union success in lending to its small size and community feel. She is quoted in Douthwaite as saying that lending would be quite difficult, "if we were in a bigger town", (1996:130). Drawing on my own personal experience of the shortcomings of this expansion within credit union branches, I recall how following the death of a family member, a request for a short term loan to cover funeral expenses until an insurance policy was received, was refused on the basis that the potential borrower was unemployed. Similarly, a student friend was recently informed that she could only borrow from her local credit union, if she had a savings of £700 with them. Such impersonal credit unions are an issue for many marginalised groups. Take the case of the Travellers in Ireland. In a study carried out by Paul Quinn and Thomas McCann, almost 44% of Travellers interviewed when asked the reasons for not trying to open a credit union account, stated "lack of necessary information", 6% were "afraid of refusal", and 22% stated a "lack of finance", (1997:57). If the common bond of a credit union is geographical, and if there are marginalised groups within this bond, then is it not up to the credit union to make itself known to all members of the bond? Surely such findings need to be addressed, if the credit union is to remain a community co-operative bank, accessible to all and meeting the needs of all.

The exclusion of some members of the community

As will be discussed in the following chapter, the charging of interest is forbidden in Islam. Therefore, immediately members of many communities are excluded from partaking in the benefits of the credit union movement. This is evident in many areas of England today where the percentage of Muslims has increased dramatically. Many of these are first generation immigrants and could benefit greatly from access to credit. St. Columbas Credit Union in Bradford was founded in the 1970's in response to the closing down of the Trustee Savings Bank in the area. In a telephone interview with Douthwaite, Joseph Yewdall, the Manager of the credit union, referred to St. Columbas as a "one stop community bank", (1996:128). According to Michael Smith, an estimated 10% of Bradford's population is Muslim, (*The Guardian*: 1998). Therefore quite a proportion of the said population are excluded from participating if this credit union was founded on a geographical common bond. However even if this was not the case, should the Association of British Credit Unions, and all national credit union bodies, that share boundaries with large Islamic populations, not consider an attempt at providing some form of saving and credit scheme that would allow Muslims to participate? By reflecting on a process of profit-sharing instead of a fixed rate of return on lending, credit unions could play a greater part in community development through the investigation of projects and investment in them, while still remaining financially viable.

The criteria set down by credit union for membership

The credit unions demand for (1) compulsory savings (2) a pre-required sum of savings before borrowing is allowed and (3) regular loan repayments alongside continued savings, make membership difficult for those not assured of a regular income. This is evident from a survey carried out by Daly and Walsh in a north Dublin suburb, where it was found that 44 % of those interviewed did not belong to a credit union as they had no savings, and believed their lack of financial security deemed it impossible for them to secure a loan. Lack of information, poor location of the credit union and unsuitable opening hours were also cited as reasons for non-membership, (1988). However this does not have to be the case, as can be seen by the cooperation of MABS and the credit union in Ireland where debt counseling, debt renegotiation and budgeting advice is shared with members. The Lough Credit Union for example allows debtors of illegal moneylenders to open accounts without savings, and the credit union assists in the renegotiation of debts to the moneylender, repaying them on a priority basis, (Daly and Walsh: 1988).

Thus it very much remains within the power of individual credit unions to meet the needs of their communities. This can only be achieved if credit unions make it a priority to recognise these needs and then work to meet them. However it is also essential that attention be paid by national credit unions to the development of credit unions in low-income areas, and the promotion of their use by members of such communities.

In this chapter I reflected on the establishment of credit unions, and how they came about from the recognition of a failure within mainstream banks to meet the needs of marginalised communities. Credit unions set about addressing this issue by developing a more accessible system of savings and credit. While such a system has served to meet the needs of many, its charging of interest has resulted in the continued exclusion of some, whether it be for social, religious or financial reasons. The possibility of an interest free credit union is I feel worth exploring in order that those who remain excluded are catered for. It is with this in mind that I move on to discuss in Chapter 3, social, religious and economic arguments in favour of interest free savings and credit.

Chapter 3: Reflections on Interest Free Credit

In this chapter I propose to look at the issue of interest free banking. I will argue in favour of it by reflecting on the historical, ideological, social and economic reasons put forward by its proponents. Islam is the main proponent of interest free savings and credit, although down through the ages various other non-Islamic people have also expounded its merits. Opposition to interest in Islam is based on the Qur'an, but Islamic Jurists and economists use historical, social and economic arguments to back it up. These arguments together with a detailed description of what their supporters see as an alternative to modern day credit and savings will be given. Finally I will conclude this chapter by acknowledging the main arguments against interest free savings and credit.

Arguments against Interest from an historical non-Islamic Perspective

The arguments against interest are universal in their bearings and are applicable to all countries, societies and civilisations, and to all times, (Qureshi: 1991). This is evident from an historical point of view when one looks at not only civilisations that held strong beliefs against interest, but also prominent economists of the past.

The ancient Greeks forbade lending money at interest. Aristotle compared money to a barren hen which laid no eggs. His doctrine preached that a piece of money could not beget another piece. According to Aristotle, the object of money was to facilitate exchange and to satisfy human wants. Money he felt could not be used as a source of accumulation, (Qureshi: 1991, Per Almgren: 1987). Interest was also forbidden in the early Roman Empire, and was only gradually introduced with the expansion of the empire and the rise of the trading class. However severe restrictions were imposed on the rates of interest and the Romans were the first to introduce laws for the protection of borrowers, (Qureshi: 1991).

The Christian Bible warns, “If you lend money to any of My people who are poor among you, you shall not be like a moneylender to him; you shall not charge interest”, (Book of Exodus: 22.25). Clearly Christians placed their initial objection to interest on such teachings. However the end of the thirteenth century saw the decline in power of the Church and the growth of trade which increased the pro-interest lobby. Nevertheless it was not until the 1830’s that the Catholic Church ceased to condemn the charging of interest rates, (Douthwaite: 1996, Qureshi: 1991). The Church’s opposition to the imposition of interest is often viewed as mere religious dogma. However J.M. Keynes argued in “The General Theory of Employment, Interest and Money” (1957) that such a teaching was based on not just moral but also economic grounds.

> I was brought up to believe the attitude of the medieval Church to the rate of interest was inherently absurd..… (but) now it seems clear that the disquisition’s of the schoolmen were directed towards the elucidation of a formula which could allow the schedule of the marginal efficiency of capital to be high, while using rule and custom and moral law to keep down the rate of interest.
> (Keynes as quoted in Qureshi: 1991:7).

Keynes argued that an increase in the rate of interest simply served to reduce borrowing and spending, causing a stalemate, which would retard investment and ultimately reduce income and eventually savings. Keynes believed that one of the main causes of the world’s poverty of resources was due to the high premium attached to money. This premium as detailed in Chapter 1 causes capitalist societies to treat money as a store of wealth and factor of production thereby encouraging the hoarding of money, which further increases its value.

In Britain The Radcliff Committee of 1959, reported in their findings that contrary to popular belief, most economists and specialists were of the view that an increase in interest rates did not increase individual savings, (Siddiqi:1985). This supported Keynes’s belief that the desire to accumulate interest was very minor in people’s motives for saving. Rather, savings are affected by certain intrinsic factors such as emergencies, saving for the future, for old age, for education, for a sense of power and independence or for one's heirs (Siddiqi: 1988, Quershi: 1991). Thus the desire to save would be as prominent in an interest free economy. The question therefore arises as to whether interest provides for economic efficiency?

Milton Friedman, an eminent American economist, when asked in 1982, what accounted for the erratic behaviour of the U.S economy, replied by saying, "The answer that leaps to mind is the corresponding erratic behaviour of interest rates", (Chapra:1986:117). Thus economists and religious leaders through the ages have identified how interest stifles economic advancement and creates disequilibrium in society. Does the Islamic argument prohibiting Interest or riba differ from this? Let me now reflect on this question by looking at the ideological argument put forth by Islam prohibiting interest or riba.

The Islamic Ideological / Religious argument for the Prohibition of Interest

Although Islam is a religion it preaches not just on a spiritual way of life for its people but also on a secular one. It develops its ideological beliefs into a vision of how society should be organised. This is based on the Holy Qur'an**,** (The word of God), The Hadith, (The word of Mohammed), and the manner in which the first four Caliphs, (Muslim leaders) ruled the first Islamic society in the seventh century, (Masood Khan: 1985). Islamic arguments against interest or riba are based on the concept of Tawhid, that is "that which exemplifies the unity of God and mans total submission to Him", (Mannan: 1990:7). Thus wealth does not actually belong to people, but rather people are simply entrusted with it to realise the objectives of God for socio-economic justice, (Chapra: 1986).

Islam essentially prohibits Riba or the setting in advance of a fixed positive return on a loan as a reward for lending. Nevertheless lending and borrowing per se are not prohibited, and neither are returns on such lending. However such a return, according to Islamic law, should not be fixed. Rather it must be determined by the return the borrower receives from the loan. Islam is against the fixed return on investments and fixed payment on loans irrespective of the profit margin of the borrower. This is what Islam understands to be interest or riba. Islamic economists see an interest free system as not only viable, but also far superior to the traditionally based system, (Masood Khan: 1989, Siddiqi: 1988).

Islam believes that charging interest promotes inequality, injustice, oppression and exploitation by the demand of the lender to a reward, without participating in risk and enterprise. Islamic teaching requires equal distribution of income and wealth and stipulates values of living that are in harmony with its goals, (Chapra: 1986). Thus Islam builds on the moral obligation of one to one's brother or sister. The consequence of a rejection of this obligation is clearly spelt out in the Qur'an as quoted by Masood Khan, (1985:23).

> Those who swallow Riba can't rise up and save as he ariseth whom the devil has prostrated by touch.
> (II: 275)
>
> O, you who believe keep your duty with Allah and relinquish what remains of Riba, if you are believers.
> (II: 278)

The Prophet Mohammed felt the charging of interest was so wrong that he equated the taking of riba to committing adultery thirty six times or being guilty of incest with one's own mother, (Chapra: 1986:56). Instead the Prophet preached exchanging "equal for equal, and hand to hand; if the commodities differ, then you may sell as you wish, provided that the exchange is hand-to-hand", (as quoted in Chapra: 1986:239).Thus material prosperity within the framework of Islamic values can be obtained only if it does not defraud other persons, but instead builds a society based on a moral foundation, fostering socio-economic interaction based on justice and co-operation.

The prohibition of riba in Islam is firmly rooted in the belief that economics is tied firmly to moral values, social equity and justice. Islam defends its position with an economic argument. However before we look at this let us reflect some more on the argument for equity and social fairness put forth by Islam in its prohibition of riba.

The Islamic argument based on Social equity, against Interest

Islamic jurists have given several justifications for the prohibition of interest or riba. Such prohibitions are surrounded by the belief that human life and the welfare of humankind remain as important in development as per capita income. From an Islamic point of view, the quality, content, composition and actual distribution of GNP is therefore more indicative than the total size of output, (Chapra: 1986, Mannan: 1990, Masood Khan: 1988). Mannan relates such a focus on the whole person; spiritual, material, welfare, and happiness, to the teachings of Manfred Max-Neef, a Chilean economists, (1990). Max-Neef classifies the hierarchy of human needs according to physiological needs (food, clothes, shelter), social needs (meaningful relationships and self esteem), and moral and spiritual needs (justice, truth and religious perfection). Mannan develops Max-Neef's theories into a religious framework, believing such needs can be satisfied through faith in the ideals of Allah's teachings. But how can such ideas be expanded to include not simply the individual but society as a whole?

Islam teaches social equity through the promotion of a socio-economic system that satisfies the needs of all. This makes essential the equal distribution of income and wealth and the promotion of the value of living in harmony. The very act of lending money in order to charge riba, reflects the fact that the lender only cares about the return on the lending, irrespective of the circumstances of the borrower, (Masood Khan: 1985, Chapra: 1986, Qureshi: 1991). Therefore a situation arises where the interests of individuals involved in such a contract become diametrically opposed. Society becomes divided into borrowers and lenders, debtors and creditors, where the loss of one becomes the gain of the other.

According to Qureshi, “debt cuts at the very root of ones honour and respect in society” (1991:47). If interest is permitted, he tells us, people borrow to satisfy not just need but greed. Mutual sympathy and human goodliness are often then eroded for self-interest, as difficulty in repayments or bad debts cause what has now become socially accepted hardships, allowing poverty to become an accepted norm in society, (Qureshi: 1991).

In Islam the idea of taking another persons wealth without consideration of the returns of the borrower is tantamount to exploitation. Islam rejects such one way traffic where the lenders or creditors are always assured of their return. Interest rates hurt whether they are high or low. They penalise the debtor thus acting as a deterrent to investment, productivity and employment, (Chapra: 1986). Low interest rates penalise the small saver, promoting borrowing and therefore inflationary pressures, (Chapra: 1986). High interest rates undermine the debtor. Chapra talks about interest rates favouring the rich; the more credit worthy people are, the less interest they pay. As I discussed in Chapter 1, credit worthiness is based on previous credit rating, the more credit, the better. It is inevitable that big businesses tend to get a lower rate because of a higher credit rating. Therefore small businesses or individuals are at an immediate disadvantage. Consequently in capitalist systems big businesses have become bigger, beyond the economies of scale, thus contributing to monopoly power and not necessarily efficiency. Interest rates, as I considered in Chapter 1, by and large cause speculation which in itself leads to instability and uncertainty for not just individuals but society as a whole (Mannan: 1990).

Thus interest or riba, according to Islamic economists contributes to inefficiency, greed, inflation, unemployment and general social inequality. In Islam, equity considerations are seen to be the motivation behind economic development, where “effective need” and not “effective greed” determine basic productivity, distribution and consumption (Mannan: 1990:14). Such an economy is based on the idea of “Grassroot economics on a human scale”, (Max-Neef: 1992), where altruistic behaviour rather than individual acquisitiveness is the driving force, and the development of not just the whole person, (psychological, spiritual and economic) but the whole society is essential for success in economic development. But how does such an Islamic economy work and why does Islam believe it to be more efficient than the interest bearing economy of capitalism?

The Economic argument Islamic economists use against Interest

Economic development initiated under an Islamic framework focuses not just on profit, but also on spiritual and social satisfaction. It therefore aims to bring about an improvement in the well-being of people in their totality. However as development is usually measured in GNP, it falls on the Islamic economists to prove, using an economic argument, that Islamic theory on the prohibition of interest really does have a place in contemporary society.

Islamic economists such as Chapra (1986), Siddiqi (1988), Mannan (1990), Masood Khan (1985) and Qureshi (1991) recognise the arguments of classical economists but counteract it by detailing clearly the relationship between interest rates, instability and unemployment. The classical school of economics stressed the importance of savings for the accumulation of capital. They argued that it was only by setting high interest rates that people would save thus making more capital available for investment, thereby promoting growth. Based on this thesis they argued that the Islamic system prohibiting interest was not workable in a modern community as people would not save, (Qureshi: 1991). However over the last half a century since such claims were made, various economists, including Keynes as seen above, have argued against the influence of interest rates on savings. The fallacy of it was notable during World War II when a 1% interest rate in the USA recorded the highest savings to date, (Keynes: 1957, Qureshi: 1991). However while the argument as to whether savings are or are not affected by interest rates is ongoing, one thing has been proven: interest rates damage the economy whether they are high or low, (Keynes: 1957). They act as a deterrent to borrowers from investing. This leads to inefficient productivity and unemployment, (Qureshi: 1991, Mannan: 1990; Masood Khan: 1985). Although Keynes argues that interest rates do not affect savings, according to Chapra, reducing interest rates lowers the gross savings ratio, lowers quality of investments and creates capital shortages, which transforms itself ultimately into a growth in unemployment through a lack of investment, (1986). The result of changes in interest rates is evident in the economies of the industrialised North which have fluctuated radically from interest rate changes, resulting in inflation, unemployment and price increases. Reflecting on such changes it becomes clear that the key issue surrounding interest rates is that of instability and insecurity on the part of the entrepreneur or the borrower. Such insecurity leads to speculation and further instability, which breeds uncertainty and has adverse effects on overall development, productivity and efficiency in the economy as entrepreneurs reduce investments, (Chapra:1986). Therefore are such interest based economies necessarily better for society, or are they, in the words of Qureshi simply acting "as a hindrance in the better development of the world"? (1991:35).

One of the main arguments cited by Islamic economists against interest is the fact that it guarantees a fixed return to the lender with no risk involved. Capitalist economists see money as not just a means of exchange but also as a factor of production. Money has therefore become a commodity and the hoarding of it acceptable. Capitalist argue that if the borrower of the money is able to earn an income then why not the lender also, but correspondingly it could be said that if the borrower makes a loss, then should the lender too not incur it? (Qureshi: 1991). The fact that creditors invest both their time and money on lending means they are not contributing efficiently to productivity. They are in essence a partner without any personal labour or risk and yet are guaranteed a fixed return. As such a return is fixed, concern with efficiency and viability of the enterprise is limited, and investments are often made in malproductive ventures. It is the security of a fixed return, and the consequential investment without thought to the viability of a project that particularly concerns Islam, (Mannan: 1990, Chapra: 1986, Douthwaite: 1996).

Islam argues with particular force that by charging a fixed interest rate, the security of a higher return is given more precedence over the return on more socially aware or productive investments. Money today has become a commodity. Creditors, banks and speculators use it to obtain the highest rate of return for themselves. Thus if given a choice of whether to invest in an irrigation project at 2% return, which would lend to growth within a community or, lend to a businessman who wishes to build a mansion at 4% return, the creditor will choose the latter. Thus investment is determined by the rate of return on money and not the productivity.

Any method of earning a living needs to be sustainable. As interest bearing loans convert money from a means of exchange into a factor of production, it stands to reason that it is in the interest of the “producers” of such money, that is creditors, to maintain the debt for a long as is possible. The easiest people to do this with are the less advantaged. By insisting on debt repayment without any considerations to other factors in peoples lives, it is inevitable that businesses which may have succeeded under lesser hardships will ultimately fail. This leads to a surplus of labour, which in essence is an indication of the misappropriation of resources in the economy and the malproductivity of society. As I mentioned in Chapter 1, the constant grip of The World Bank on Africa is an obvious example of this. The pivotal cycle of indebtedness of these nations, acts as a source of income for the richer nations, the lenders of the world. No account is taken of the overall effects such debt has on the productivity of individuals and countries. The sole aim is repayment or a return on the investment of money, and not on productivity and the well being of the people, (Onimode: 1989, El-Tom: 1994).

Islamic Alternatives

Islam sees the use of money as a store of wealth and means of production as wrong. It sees interest rates as a cause of instability and inequality in society, where the creditor is liable to choose an investment of higher return rather than higher productivity and optimum satisfaction to society, and where they hold a vested interest in maintaining the balance of power in the relationship through the maintenance of debt. Islam argues that money should be first and foremost a medium of exchange, where the creditor and debtor, or banker and entrepreneur, become partners, sharing the risk of profit or loss. According to Islamic economists, in order for a community, country and indeed any economy to develop, the financial sector must be seen to cooperate wholeheartedly on an equal basis with industry, (Mannan: 1990, Qureshi: 1991)

Therefore Islamic economists propose an alternative to the present system in the form of business partnerships based on the socio-economic beliefs laid out in the Koran and Hadith. Such partnerships are based on equity, are economically viable and are, according to the teachings of the Prophet Mohammed, ideologically correct. As such the standing of Islamic banks in relation to customers is that of partner, investor and trader. Islamic banks therefore use various techniques of investment based on profit and loss sharing and built on the grounds of "stability, allocative efficiency, growth and distributive justice", (Mannan:1990:59).

Basically there are three types of profit-sharing contracts presented by Islamic jurisprudence for the replacement of interest or riba orientated transactions. They are **Murabahah, Mudarabah**, and **Musharaka,** all three of which are based on the belief of profit-sharing, that is the employment of a variable rather than a fixed rate of return on investment.

The first type of profit-sharing contract, **Murabahah,** is based on the principle of "cost plus" (Mannan: 1990:52). The bank or financier purchases a certain commodity set to the specifications laid out by its client, and sells it to them at an agreed mark up price. Payment is undertaken in installments over a period of time and does not compound, (Chapra: 1986, Mannan: 1990).

Both **Mudarabah** and **Musharakah** are built on a foundation of partnership rather than on a relationship of lender and borrower. Thus a fixed rate of return on investment is replaced by a variable one dependent on profit. The main difference between the two is that Mudarabah brings together a partnership whereby one person (or group of people) contributes capital, while the other person (or group of people) contributes labour. Musharakah is a partnership of people (or institutions) where all contribute capital or financial resources. In both, profits may be shared in any prior equitably agreed proportion. However it is advised that profits should be shared in proportion to the capital invested or risks taken, as is the case when losses occur, (Mannan: 1990, Chapra: 1986).

Mudarabah can be implemented for either long or short term projects. An example of a short-term project could be an investment where profits or losses need only be shared out once. Such is the case when a builder enters a contract with a financier to build and sell a house. Likewise in the case of a long-term project, a builder may choose to continue building and selling houses and the financier may agree to continue this partnership, sharing profits in a prearranged, equitable fashion, (Chapra: 1986, Mannan: 1990).

Musharakah may also be implemented in the short or long-term. For example a business person may enter an agreement with a bank (or financier) for a specific period of time and agree to pay profits in proportion to capital invested, while at the same time agree that in time, as the partnership yields profits, the business person may buy the bank (or financier) out of the partnership, thus reducing the latter's share of the profit. For example, if the bank (or financier) contributes £10,000 to a venture worth £40,000, they may on agreement gain one quarter of the profit, that is, their percentage of capital invested. Should however, the business person return £5,000 of the banks (or financiers) investment to them, the latter's share of the profit will fall to one eighth. This share can continue to fall until the bank has received its principle back in full. Alternatively in Musharakah, the agreed partnership may be viewed long-term, with a group of financiers sharing both profits and losses in proportion to capital invested. Among these financiers some may also be contributing labour, as is the case of an entrepreneur entering into an agreement with a bank. This is where the distinction between Mudarabah and Musharakah becomes hard to define. Thus the basic principles of Mudarabah and Musharakah are the same. This has led Chapra, to comment that it is possible that in today's world, Islamic financing may be a combination of both, where all parties contribute to the capital, but not to the management and running of the investment, (1986). It is upon this less defined set of criteria, that I propose to base my argument for an interest free system of credit and savings.

The above set of criteria for Islamic financing is clear to see from the writings of Mohammed Uzair, who explains that interest free banking involves three parties,

a) The actual user of capital or the entrepreneur.
b)The bank which serves as a partial user of these funds and as an intermediary.
c) The suppliers of funds, that is the depositors, (Masood Khan: 1985).

Therefore two contracts are required in order to implement such a system. From these we can see how such a system may incorporate elements of both Mudarabah and Musharakah.

1) The bank receives deposits from the public on the basis of, sharing profit and losses with depositors of certain mutually agreed terms. This is in essence a form of dividend.

2) Banks then use these deposits to advance loans to entrepreneurs on the same principle of profit-sharing. Such profit-sharing may take the form of fully financing a project (Mudarabah) or part financing it (Musharakah).

The Interest free bank will then proceed to share profit and losses with investors and with depositors. All shares will have been set by prior mutual agreement. Borrowers have limited liability, that is to say, should a loss occur in investment, the individual's total loss will not exceed their total deposits or capital contributions, (Chapra: 1986, Masood Khan: 1985, Siddiqi: 1988). By implementing a system of Musharakah or Mudarabah, risks are distributed more widely, and financing of equity rather than debt occurs, with all parties holding a vested interest in economic success, (Masood Khan: 1985, Chapra: 1986, Siddiqi: 1988, Quershi: 1991, Douthwaite: 1996).

The replacement of a fixed with a variable rate of return on investment, increases efficiency as all parties hold a personal stake in the venture's success, thus encouraging creditors to investigate beforehand the viability of the project. By turning savers, the banks suppliers of funds, into entrepreneurs, the risk of business is spread more equitably with partners sharing both profits and losses and all parties holding a vested interest in the well being of their partners. The risk of instability that accompanies interest bearing loans is further eliminated thereby encouraging more investment and growth, (Chapra: 1986, Siddiqi: 1988, Qureshi: 1991).

Reflecting on some arguments against an interest free banking system

Four immediate arguments against an interest free bank may be raised by critiques studying its viability;

1) Attracting savings for investment in production,

2) The cost of investigating the profitability of a production loan,

3) Managing the repayment of credit and

4) Consumption loans.

The problem of attracting savings for investment in production is argued to be one of the main failings of an interest free system of banking. Many mainstream economists argue that a profit-sharing economy would seriously weaken people's desire to save, thus causing a shortage of capital for investment. Islamic economists have recognised the necessity to address this issue. Chapra, recognises that savers may initially be discouraged by the variable rate of return on savings, (1986). However, both he and Masood Khan, feel this can be overcome once savers realise they are partners with not just the bank but also with borrowers, and that their profit-share and ability to borrow depends on the return of investments of the bank, (1985). Chapra believes education to be a key factor in developing a sense of partnership within this system. He also proposes a deposit insurance to guarantee the safety of demand from any losses that banks may suffer from unsuccessful ventures. Siddiqi discusses the level of ability the bank has of controlling savings, (1988). He details how in times of high demand for capital, entrepreneurs will offer the profit-sharing bank an increase in their profit-share on investments. The bank in turn can then increase the dividends paid to account holders, effectively attracting them to deposit more capital. Likewise if there is a fall in demand for capital, banks can reduce the profit-share they expect from business partnerships. In doing so they reduce the profit they share out to shareholders, which in turn will reduce savings. Thus both the supply of capital and savings can be controlled by the profit-share.

The cost involved in both time and money of investigating the profitability of interest free production loans is a criticism levied against the supporters of an interest free banking system. Careful investigation of possible investment ventures is an essential element of the Mudarabah and Musharakah banking system which survives on profitability. Chapra argues that an interest free system would in the long- term become more efficient than an interest based one, as prospective profit-sharing investors undertake much more careful investigation of a potential investment than interest orientated lenders who are assured of a return, (1986). Islamic economists are adamant that if credit is made available on the basis of profitability, then not only will banks be more careful and rational in evaluating projects, but also small and large businesses would have equal access, with the rate of profitability being the determining factor to securing funds. Such investigation would also help build a sense of security and social obligation among members, (Qureshi: 1991, Douthwaite: 1996, Chapra: 1986). However as such concepts are new to many creditors and as their results are not so visible in output in the short term, it may be simply a matter of creditors familiarising themselves with the idea and the knowledge that long term advantages are more beneficial to all.

A fear also exists that the absence of interest rates may encourage people to renege on their debt. However by detailing the consequences of such an act before the loan is secured (for example the confiscation of consumer goods, or the refusal of future loans), and by encouraging a sense of community and social awareness, such defaulting can be minimised, (Qureshi: 1991). In the case of genuine hardship where debtors fall into trouble, loans can be renegotiated. This is contrary to many interest bearing banks that do not have a social obligation to the borrower. In such cases, the borrower very often becomes so indebted with accruals of interest, that they renege on the debt altogether. Thus, what may have become a bad debt in an interest based economy simply becomes a second chance under Mudarabah. Thus zero interest rates encourage greater stability as in essence all investors may renegotiate in time of hardship and what may have become human and material waste left over from bankruptcy is avoided, (Douthwaite:1996, Qureshi:1991). Douthwaite reports that even *The Economist Supplement* of August 1994, identifies the qualities of Islam’s Theoretical Framework for a zero interest economy, and quotes as a “terrible pity” that fact that the “West’s banks did not have that incentive in so many of their lending decisions in the 1970’s and 1980’s”, (1996:159). Had this occurred, the article argues, many investors may not have gone bankrupt.

The issue of consumption loans is a challenging one for all proponents of interest free banking. Consumption loans as opposed to production loans are used for the cost of everyday living, and do not directly generate further income. Masood Khan tells us how S.M. Ahmed and Henry Simon believe such loans should be provided free of charge, as do many Islamic economists who would tend to see such loans as "Qard Hasan", or welfare loans, (1985). Uzair however does not see this as viable and instead suggests a service charge, although Masood Khan disagrees with this solution likening the fixed rate of a service charge, to interest or riba. To overcome this problem Qureshi proposes that the cost of consumption loans be covered by the profits made from production loans while A.M Ahmed makes a suggestion of a tax on each consumption loan to cover costs, (1991). Mannan proposes the setting up of “Peoples Credit Cooperatives” where members purchase shares and the money received is then loaned for consumption, (1990). However, as Khan has pointed out, the problem of attracting savers then occurs. Will people be attracted to such a cooperative in the hope that they may one day need a consumption loan?

Arising from the absence of interest on consumption loans is the problem of excess demand over supply. This is an area I looked at with regard to production loans above and was overcome by changing the profit-share to attract or detract savings. However as this cannot be implemented with consumption loans, suffice it to say that in a cooperative which loans particularly for non-profit making purposes, and therefore receives no profit, the issue of excess demand may have to be dealt with on a first come, first serve basis, as is done in the instance of some revolving fund schemes.

Concluding remarks

The abolition of interest and its replacement by a system of profit-sharing would reduce one of the major sources of uncertainty and thus instability in the economic world today. It would also help create a more just system of competition, thereby assisting investment and growth. By turning savers into entrepreneurs, participation is liable to increase and with it the self-worth of people. As participation takes place, the emphasis of "survival of the fittest", evident in the interest based capitalist system, will diminish as people recognise the benefit of working together in order to maximise profits for all. The Islamic system allows entrepreneurs with "talent, drive and innovation" who have not yet proven themselves, to do so, (Douthwaite: 1996:158). It allows for a much fairer society, where resources are not only utilised efficiently but are also equitably distributed.

In the above chapter I explored arguments against the use of interest. Such arguments are fundamentally based on Islamic literature. However while Islam may prohibit interest for religious reasons, Islamic and non-Islamic economists have developed the theory further by arguing on its necessity from a socio-cultural stance and its viability, institutionally, financially and economically. Such economists develop the idea of the possibility of interest free credit schemes within non-Islamic communities world-wide. The main elements of the discussion lie in the granting of loans for production and consumption purposes. While the idea of profit-sharing carries great weight in the consideration surrounding production loans, with regard to consumption loans the argument is more complex. Some promoters argue for a tax to cover consumption loan costs, while others feel they should be administered on a more social footing and carry no extra charges. However both Islamic and non-Islamic promoters of this form of credit all stress the necessity for a strong sense of unity and honesty to be present within communities to enable the enhancement of all. This leads me on to Chapter 4, where I present 2 case studies of interest free credit schemes.

Chapter 4: Case Studies of Interest Free Credit Schemes

In chapter 4, I present two case studies of interest free credit organisations in order to highlight the possibility of an interest free credit union for marginalised communities. Both examples are non-denominational, and while Chapter 3 discusses interest from an Islamic perspective, I feel it is very important to demonstrate that an interest free system can operate outside of Islam. Initially I had hoped to present a case study of an actual interest free credit union. However after much research, I failed to identify any such credit unions and concluded that due to time constraints it would be better if I presented the credit organisations available, and used them to demonstrate the possibility of adapting their qualities to a credit union. Credit unions, like the 2 case studies presented, address many factors regarding the exclusion, from the mainstream banking sector, of marginalised communities. Nevertheless by not addressing what I see to be one of the main elements of exclusion, that is the charging of interest, many marginalised communities remain excluded from credit unions. In addition to this, because credit unions compete within an interest bearing environment, they are often forced to adopt the values of such an environment. An example of this is the pressure to expand which often serves to alienate the economically poorer members of the community.

The 2 examples I present of interest free credit schemes, demonstrate how such exclusion can be addressed and how viable it is. This may be important for the further development of the credit union philosophy of social responsibility. During the course of this chapter, it will also become clear, that in order to implement an interest free credit scheme, there must be an intersectoral approach in the operation of the facility. Such an approach, I will argue is economically viable. Suffice to say, that its viability must not just be proven in an economic sense, but also in a socio-cultural and institutional one. Interest free credit it will be seen, needs to be sustained on a platform of social conscience as opposed to earnings from interest. By developing such a system of sustainability, it will be less likely that interest free schemes will be forced to compete with the mainstream banking sector on the terms and values of such a sector. I feel both the credit schemes I present, and the credit union structure presented in chapter 2, have a lot to offer and learn from each other and this I will detail throughout chapter 4.

I have chosen to present chapter 4, by briefly detailing the background to the two case studies. I then move on to draw on some of their strengths and weaknesses by addressing the questions; **is access to non-exploitative credit achieved?** And **is such non-exploitative credit sustainable?** By reflecting on both the above questions, I will identify whether any failings of credit unions I highlighted in Chapter 2 are addressed and the proposals of Chapter 3 implemented.

The 2 case studies, JAK Membership Bank (JAK) in Sweden, and the Coolie Credit Funds (CCFs)[1] in India, are diametrically opposite in the geographical, social and cultural sense. By contrasting these essential elements, it becomes clear, that interest free credit schemes can be adapted in different contexts. However it must be noted, that while both case studies are presented, it was more difficult to obtain answers from JAK for the questions I was addressing in this chapter. This was due to their lack of written information in English. Therefore in areas, The CCFs will be highlighted more. This is not to say that JAK is any less successful, and its inclusion in the chapter proves its importance in reflecting a varied view of interest free credit.

JAK in Sweden is a non-profit making, non religious, politically neutral, savings-and-loan co-operative which operates without interest. JAK short for “Jord, Arbebe, Kapital” translates to mean “Land, Labour and Capital, (Hofford:1998:1). It has been in operation since 1965, having been inspired by JAK in Denmark, which grew after the Great Depression of the 1930's. Today JAK in Sweden, consists of approximately 18,000

[1] While the term “Coolies” may be seen as derogatory in the North, it is an acceptable term in India, which describes a particular group of people. In view of the fact that it appears in the title of my main case study, I wish to emphasis that it is used within this dissertation with all due respect and with no offence intended.

members, and since December 1997, can boast a national banking license. JAK believes that interest is inimical to a stable economy, causing unemployment, inflation and the movement of money in the long term from the poor to the rich. JAK's ultimate aim is to relieve people from the yoke of interest debt. It aims to achieve this by educating its members and the public on the negative effects of interest by abolishing it and replacing it with more people friendly instruments in borrowing and saving.

Like credit unions, JAK promotes the idea of compulsory savings, and all borrowers must have saved for a minimum of 6 months. JAK grants loans in relation to the amount and length of time saved. No interest is charged on savings and only a self-cost administration fee is taken for loans. In the past JAK membership has been almost totally consumer related, especially in the area of house purchase, (90% of loans). This it is felt by JAK was due to the compulsory savings required before the granting of a loan, for example, entrepreneurs are unlikely to want to wait 1-2 years until they have accumulated a savings base before being granted a loan. However as we will see later, JAK is presently looking into the introduction of a profit-loss sharing scheme for production loans.

The CCFs, in India exist in over 600 villages in the Bagepalli region of the country. They offer interest fee production and consumption loans to members by way of a revolving fund. They are non-profit making and in this way, like JAK follow the philosophy of the credit unions in promoting a more socially conscious system of banking. The CCFs were planned in 1985 with the assistance of the "Agricultural Development and Training Society", (ADATS), a local NGDO, as part of the Coolies', (landless labourers and small landed peasants) efforts to take control of their own lives. This was in opposition to their dependence on landlords for credit, which kept them in a permanent state of pauperdom, bondage and alienation.

ADATS and the Coolies involved in the CCFs, believe that credit controlled from within can be used as a learning and enabling tool to assist them in strengthening their base in society. This base they recognise, has been weakened by the caste culture, neo-capitalism and the introduction of a Structural Adjustment Programme, which reduces the input of government initiatives on tackling welfare and poverty issues. Nevertheless ADATS and the Coolies do not reject the existence of capitalism, but see it rather as a reality which they have to work within, and believe that while capitalism is normally guided very purposely from the top, it can also be shaped and moulded from the bottom. The Coolies attempt to do this by using the CCFs as the chief instrument to effect necessary change in their lifestyle, thereby enabling them to compete in the surrounding market economy.

The CCFs are part of larger community organisations known as The Coolie Sangha Units (CSUs). These units deal with not just micro-credit, but health, gender and other related empowerment issues. Their slogan "to become rich in 3 years!" describes not just economic emancipation, but also spiritual, societal and political, and reflects the socio-political stance the Coolies take in their own process of development and empowerment. The CCFs are financed from an initial grant of R5,000 from ADATS and donor partners. This grant is not doled out indiscriminately, but is rather revolved among CSU members in a large number of villages. Members, who receive loans, contribute 10% of it towards the building of a CSU fund. All members are encouraged to take loans as not only does it benefit them in achieving a better standard of living by investing in either production or consumption, but the 10% contribution will accumulate the more borrowers there are. This will allow for an accumulation of capital in the Sangha Fund to be used in the expansion of the power base of the Coolies. Some of this capital will eventually be ploughed back into the CCFs to help bridge the gap between the real and nominal values of CCF capital. Once the initial grant of R2,000 from ADATS is utilised and repaid, a further matching grant is given. Following a repeat in utilisation and repayment, a grant of R4,000 is distributed, and this continues until the target of R500 per member is reached. Therefore a CSU with 50 members will receive a total of R25,000 from ADATS to help in the setting up of a fully operational local interest free banking system.

As part of their efforts to address the gender imbalance which they see in existence within their communities, the CSUs hold weekly women only Manila meetings, where one female member of each family attends to discuss current issues in health, education and credit. The basis of the Manila meetings lies in women's power of veto over decisions such as the allocation of loans. The importance of the Manila meetings in relation to the CCFs will be looked at in more detail later.

Having looked briefly at the background to both JAK and the CCFs, I now propose to identify whether they have succeeded in allowing access to credit for marginalised communities.

Is access to non- exploitative credit achieved?

Access to credit by all members of the community is an essential element in ensuring sustainability in development. Access can be looked at from many aspects, but for the purpose of this dissertation, I have chosen to focus on the issues of gender, geographical location, time constraints, and the criteria used in the granting of loans.

Gender

Most development theorists and practitioners would agree that women tend to carry the burden of poverty in marginalised communities. Such a feminisation of poverty, is evident in both the urban/rural, and North/South divides world-wide. The problem is compounded by the fact that often access to credit is denied to women, unless they have permission from their male partner or guardian. It is therefore essential that the issue of gender is looked at when dealing with access to credit. The Grameen banks in Bangladesh, which run along similar lines to credit unions, set about addressing this problem by implementing a policy of reverse discrimination, where loans were granted only to women. However such a policy caused consternation among the male members of the community, who very often redressed this problem by forcing women to borrow for them.

By alienating men in order to rebalance inequality, cultural and social norms are upset. Men must maintain a role in communities. In very many marginalised urban communities in the northern hemisphere, as unemployment and single parent families increase, the role of men in the family declines at both emotional and economic levels. As this occurs, many development theorists feel that the answer to poverty lies in allowing more women access to micro-finance and businesses in order that they maintain some form of family structure. However I feel it is essential that the issue of men be addressed, where their roles are also redefined within the context of the community.

Equity therefore, I feel, is an essential element of sustainable development. Credit should not be administered on the basis of gender, whether it is to counteract gender imbalance, or to maintain stereotypical roles. Rather it should be given on an individual basis.

JAK, does not seem to have a strict policy on gender. While this may be the case, and if so be frowned on by many, the lack of emphasis on such a policy may simply be due to Sweden's national policy on gender. Such a policy is more advanced than most other nations of the world. Maybe therefore making reference to gender equity is not such a pressing subject as is often the case in other contexts.

At the onset of the CCFs, the Coolies themselves decided that in order for both the individual and the community to develop, there must be more or less uniform development for all with the more needy, such as the elderly and single women, being helped first. This the Coolies felt would improve their overall economy and stop the less economically viable being a drain on the rest of the community. The CCFs, while recognising that women occupy “a lesser status and suffer serious impediments as a result of historic and universal sexual discrimination", (ADATS: 1996), chose not to redress this imbalance with the reverse discrimination policy the Grameen banks adopted. Instead while CCFs do lend to men, women play a major role in the decision making process. While applications for CCF loans are made to the CSU, the Manila meetings have the power to veto loans to men if they feel that men are borrowing before discussing with, or are borrowing for reasons that will not benefit women family members. This policy, some may feel places power in the hands of women only. However I would see it as simply allowing women access to a voice in their family finances.

The *Vokkaku Sanchi Duddu*, which literally means “pouch to keep a beetle leaf in", is another element of gender awareness to improve access to credit, practised by the Coolies which incorporates local wisdom with modern management, (ADATS: 1997:3). Traditionally women in the rural areas where the CCFs operate, hid small amounts of money for day-to-day unexpected expenses. In keeping with this, and in recognising that obtaining a CCF loan can be a somewhat lengthy process in a time of emergency, the women’s meetings are given a provision of R5,000 by ADATS to lend out as they see fit to women in need of emergency consumption loans. Such a recognition of the importance of consumption loans, I believe, ensures that people’s interest is kept in the CCFs, where women see it as not just a force imposed from outside to encourage them to produce, but rather it is an internal decision making body, which recognises their daily needs and assists in easing them.

Access however should not just be concerned with the issue of gender. The ease, to which members and potential members can access information both geographically and in relation to time, is also an essential element that needs to be addressed when reflecting on the viability of credit for marginalised communities. Attention must also be given to whether or not loans are granted on their own merit or on the financial record of their applicant.

Geographical location, time constraints and the criteria used in the granting of loans

JAK operates in Sweden and is open to anyone who shares a common bond of a belief in a more socially and economically equitable environment. From my research I have not found any emphasis on the building up of a close knit community where all members know each other. This may reflect a similar problem to that faced by the credit unions, of anonymity where loans may be administered on the basis of peoples history as opposed to their potential. Loans are granted in relation to savings, as will be discussed later. However members can assist each other in obtaining loans, by transferring what each member calls "savings points". Loans are administered depending on the fulfillment of savings obligations, the length of time saved and the amount saved. Potential borrowers are sent an application form for a loan. The form contains information on requirements to obtain loans and loan repayment options. It can take up to one month for loan applications to be administered. This is in contrast to one week with the CCFs, and reflects the different scale both organisations operate under.

In relation to the CCFs, as the CSUs operate within villages in the Bagepalli region of India, and as they are run by the people with the temporary assistance of ADATS staff, geographically all members of the CSU have access to both the CSUs and CCFs. All partake in the running of its activities. This can be seen in the Manila meetings, as well as the weekly cluster meetings which are open to all members. The importance of keeping minutes is stressed, and with this the realisation on the part of the Coolies of not only taking responsibility for what they have said but also of their right and importance as both individual human beings and as part of a effective minority within a larger community. As meetings occur so regularly, members can be assured that their requests for loans are dealt with speedily. Loans are granted on their own merit, or under a policy of “Truth in Lending” and not on the previous financial records of the applicant. This is unlike the policy imposed by mainstream banks and is in keeping with the beliefs of the credit unions, although, as I noted in Chapter 3, this is not always reflected in the operation of larger credit unions.

Is such non-exploitative credit sustainable?

As I believe the projects in question are attempting to offer non-exploitative credit, the question then needs to be addressed as to whether such credit is sustainable. The areas that need to be looked at in order to gain a comprehensive answer to the question are numerous. I have therefore chosen to look at the issue of sustainability under certain headings, namely:

- Do the projects seek to empower all participants through education and awareness raising?
- Is the issue of socio-cultural responsibility addressed?
- Is the importance of institutional viability recognised?
- Is the importance of economic viability recognised**?**

Do the projects seek to empower all participants through education and awareness raising?

For a project to be sustainable, it must seek to empower and strengthen its members by offering them a voice, and building a spirit of community. Empowerment of the individual and the community must come through education, and education through experience. As I discussed previously, this is part of the philosophy of the credit union movement which prides itself on educating its members on sustainable investment, through attainable borrowing..

JAK, as we have noted already, seeks to educate people on the benefits of interest free credit through its promotion of the "ill-effects" of interest, and its practice of an interest free system of banking. It endeavors to empower by allowing people access to such information and action. This is achieved through the dedication of 80 local representatives throughout the country, who hold lectures, study circles, exhibitions and fairs, and staff local offices to help members and encourage non-members. However presently JAK bases most of its efforts on the building of a financially sustainable banking system. It therefore does not offer financial or legal counseling, skills training or networking. Such issues need to be addressed if JAK is to remain rooted in ordinary peoples lives.

The CCFs under the guidance of the CSUs also place a forceful emphasis on the promotion of education for the empowerment of the individual and the community. This is seen through the use of community volunteers in the running of the CSUs and the CCFs. The fact that the decision making process regarding the allocation of loans is kept strictly within the community, promotes an understanding of attainable borrowing and socially influenced lending. The community, knowing each individual and being aware of their ability to repay, grant loans for both production and consumption, on personal merit rather than on people's financial standing. This is evident by looking at the case of some members of CCFs, for example, Marappa from Inminchenahalli, a nomad who begged for a livelihood. After joining the Coolie Sangha, he took a loan for Rs2,500 and began selling photo frames. His profit was so good that he took out a further loan to begin a cloth business in addition to his initial loan. In 1996, the family was reported to have stopped begging and was making a living from both the businesses, (ADATS: 1998:3). The case of Rathnamma of Doddadasenahalli CSU is also worth noting. After losing her husband, 2 children and cattle when her house collapsed during the monsoon, her CCF decided to lend her money instead of giving her charity. Some members withdrew their applications for loans in order to leave enough money for her. Rathnamma bought a cow and armed with a long term repayment plan has now set about rebuilding her life, (ADATS: 1998:3). Such cases reflect not simply a sense of co-operation among the members but also a growth in the idea of self help. Such an idea of self-help feeds into ADATS philosophy that every action within the CSUs should be determined by "Coolie perception and Coolie appreciation of Coolie problems", (ADATS: 1997).

The CSUs do not simply promote individual borrowing from the CCFs for community development. They also place a huge emphasis on the need for a community fund in order to promote participation, self-confidence and sustainability through self-financing. Ram Esteves, Director of ADATS, compares the 10% contribution from borrowing by each member to the Sangha Funds, to the compulsory tax of 5% levied in Islamic communities. However whereas Islam generally views such a tax as charity for the poor, Esteves rather likens the Sangha Funds to “local taxation that somehow completes the circle in the creation of civic society", by building up a decentralised self-financing mechanism for the Coolie Sangha as a whole, (Esteves: 1998).

Nevertheless it is also worth noting that the 10% charge on CCF loans can work out quite expensive for the borrower, for example a loan of 6 months will end up costing an “indirect interest rate” of 20%. However as loan repayments are negotiated on an individual basis by both the CCFs and the borrower, loans can be repaid over a longer period of time, thereby cutting the indirect interest rate to 5% p.a., if paid over 2 years. This lends to the philosophy of social justice promoted by the CSUs, where loans can not only be negotiated initially by the borrower, but can be renegotiated to be paid back over a longer period if circumstances change. In addition to this, should a particular borrower fail to repay, all the remaining members contribute to cover their debt. This sense of community ensures a greater viability and sustainability of such a lending scheme.

Such a charge on borrowing is replicated by JAK who, charge a “loan fee” on borrowing to cover administration expenses of 3.5% of the loan plus 0.6% for each repayment year. Longer repayment time results in lower costs when calculated as a percentage. However as each year accumulates a .6% fee, borrowers are encouraged to repay as soon as possible thus allowing for a revolving fund of savings for borrowing.

Such a system of “taxation” I feel promotes a sense of belonging and ownership, as members realise that they are not just on the receiving end of the CCFs or JAK, but are also giving a proportion of their capital not simply in cash but also in kind for the benefit of all. The Sangha Fund, I believe is similar to a community savings account. While the CCFs do not promote individual savings, instead focusing on lending, ADATS and the Coolies, like JAK nevertheless recognise the importance of saving in order to develop self-help capabilities among the Coolies. Savings, ADATS believes, allow the Coolies particularly the landless to invest in income-generating activities.

However sustainability cannot just be achieved from success in one area of the development spectrum. Development must be intersectoral, and in order for this to occur, it must address also the issues of socio-cultural responsibility and institutional and economic viability. The credit union movement has proved itself to be very strong on these elements, thus accounting for its success world-wide. Nevertheless it does isolate certain members of society, for example as we saw in chapter 2, due to its emphasis on compulsory savings and its charging of interest rates. I now propose to examine whether the 2 case studies in question redress any of these weaknesses, thus improving on what credit unions have achieved for the economically marginalised within our societies.

Is the issue of socio-cultural responsibility addressed?

JAK by the very basis of its beliefs in a social and environmentally friendly banking environment, has accepted its role of responsibility in a socio-cultural context. Its promotion of investment in environmentally friendly, educational and health projects reflects this. The efforts of volunteers, all members of JAK, to promote the beliefs of JAK are further evidence of its social standing in society. Its policy on lending, which allows for the transfer of saving points, from one member to another, assists in the development of a strong sense of community for the benefit of all. This ensures that although loans are dependent on savings, borrowing is not monopolised by the better off. Its self reliance through a strong capital base ensures savings from all are encouraged.

The question of whether or not the CSUs and the CCFs address peoples socio-cultural, as well as their financial needs is seen as imperative by ADATS if the Coolies are to gain a place within the society as an effective minority. Such a socio-cultural responsibility and acceptance can only be founded on interaction based on justice and co-operation between all within the community. Within the CSUs and the CCFs this is evident, where workers in all possible cases belong to the community. Those who do not, are in effect working themselves out of a job by training people of the community to replace them. This together with the professional expertise that ADATS contributes to the Units, helps ensure that the traditional and cultural voice of the community is heard alongside that of the external experts. The emphasis that the Coolies and ADATS place on socio-cultural values is evident from the level of community participation in the CCFs and the CSUs. Although it is often the more economically marginalised within the community who are targeted for involvement in the CCFs, there is also a history of the better off within the community availing of loans. This is evident from a report by ADATS in 1997, of 17 villages in the Bagepalli region which recorded around 13% distribution of loan funds to members who had a land holding of 5.1 acres or more, (ADATS: 1998:3). While this allows for an improvement in their standard of living which would hopefully have a domino effect on economically weaker members, is it worth noting that in the same report, those holding between approximately 1/10 and 3 acres of land, benefited from the majority, (on average 49%) of loan funds. However the report also noted that the most economically disadvantaged within these 17 regions accounted for approximately only 3% of loans administered. It was believed that the lack of interest by the economically weaker members of society in applying for loans was largely due to the fact that a large proportion of loans were distributed for the purchase of seed, seedlings or livestock for production purposes, and these members had no land to grow crops or graze cattle on. Also ADATS noted an opinion among the landless about their own credit unworthiness. This raises the importance of the necessity for a long-term focus on promoting a sense of awareness and self confidence among the landless. The danger of economically better-off members availing of all the benefits needs to be avoided if the CSUs and the CCFs are to remain accessible to all.

This issue of a monopolisation on borrowing by the economically better off, has been partly addressed within the CCFs by the promotion of transparency in loan administration. Such transparency ensures that all members are entitled to a full and frank sharing of the financial position of a loan applicant, as well as having access to the financial records of their CCF. This develops an awareness of the accessibility for all in partaking in the CCFs. As all members play an active and effective role in the supervision of the utilisation and repayment of loans, and as loans are administered in a revolving manner, it is very difficult for members to avoid this social control. Such social control ensures community interest in investigating loan administration, as it is in the interest of all to ensure that loans are used for not only the good of the individual but also for the benefit of the community.

This necessity of strict supervision by all is further promoted by the fact that should a member default on repayment, it is up to the other members to repay their debt to the CCF. Such a system solidifies the sense of social responsibility, where each member takes an interest in the daily life of their fellow members both before and after borrowing. However it is also important to note that loan repayments are renegotiable should a member find themselves facing unexpected difficulty. While some members join simply to borrow and then default, the vast majority of those who face difficulty in repaying, will succeed in returning the money borrowed, once their problems are discussed and the loan repayments rescheduled. This draws attention to the importance of clearly laid out and achievable individual repayment plan being drawn up for each borrower. It is also felt by ADATS, that the lessons learnt by the Coolies from such experience regarding repayment plans will act to strengthen the Coolies sense of management and administration, thus equipping them with the means to empowerment (ADATS: 1998:3). This is in contrast to the workings of the credit union movement where bad debts remain the responsibility of the individual, and while loans repayment can be renegotiated within the credit union, interest rates remain a burden to the borrower. The sense of community in the CSUs is such that success is viewed as not only success for the individual but for the CSU as a whole.

Accordingly, interest free credit, by its emphasis on the whole person and its dependence on a sense of community, ensures that more people gain access to credit, and in doing so this allows for more to become self sufficient. Such self sufficiency can only act for the benefit of the community. This develops the belief of “Truth in Lending” where it is not simply the financial background of the borrower or the highest financial return that is important but also the social, environmental and political effects the choice of lending will have. By placing such importance on all of these issues, access to credit is open to more than just those who possess a standard credit rating.

This in itself I believe is an argument in favour of interest free credit unions. Therefore effort must be put into investigating the cost and its benefits, and in this way the importance of institutional viability needs to be recognised.

Is the importance of institutional viability recognised?

It is essential that the viability of the CSUs and JAK are assured in all sectors of operation. Not least of these is the importance of institutional viability. The credit union movement has clearly showed us how a people’s bank can work efficiently and effectively if it is run under not just a policy of social responsibility but also one of strict administrative and managerial guidelines.

JAK in Sweden functions under conventional banking codes. However it is run by a team of socially conscious volunteers and paid staff as opposed to profit driven directors. Nevertheless it has not been without its problems, which were evident in 1992 when a split occurred in the management staff, and a breakaway group formed to set up a similar organisation, Nordiska Sparlan Ekonomisk Forening. The importance of communication and a strong sense of comradeship are essential in such socially based financial institutions in order to avoid such upheaval and maintain stability.

The CCFs like credit unions operate under strict organisational guidelines. The common bond, which is fundamental to credit union philosophy, is also held in high regard by the CCFs. Such bonds are based on geographical lines. Networking is also seen as essential for the healthy existence of CCFs within communities. In this way ADATS promotes from a bottom up viewpoint, the weekly Manila meeting of women within villages, the weekly meeting of all members in an area in their cluster groups, and the monthly Bagepalli Coolie Sangha meetings which brings together representative from all villages. Such networking ensures that each CSU not only keeps in touch with their sister CSUs but that they also gain any assistance they may need from their counterparts.

JAK is however less locally based, choosing instead to appeal to people who share a common bond of a belief in a more social and environmentally based economy. Anyone sharing such ideas and willing to fulfill the compulsory savings criteria is welcome to join.

The training of staff by ADATS in all aspects of the CCFs is viewed as an essential element in the success and sustainability of the credit fund. The extent of ADATS involvement in the CCFs is therefore dependent on the stage of development of the particular CCF. ADATS aims eventually for the total employment of people within the community in positions such as Village Level Workers (VLW), Extension Workers and teachers. VLW are responsible for the proper utilisation and prompt repayment of CCF loans. Extension Workers implement and construct CCFs across areas and ensure that Coolies are given the necessary skills to run CCFs alone in the shortest possible time. Added to this training is an emphasis on awareness raising within the community of social issues and responsibilities. The success of such awareness raising is evident from an evaluation carried out on behalf of ADATS, where it was found that, save for a few incidences, brought about by the pressure of harvest time, most villages held meetings continuously for the 8 years that the CSUs had been in operation, (ADATS:1997).

ADATS recognises the importance of modern technology in the development process and sees as essential the use of computers in managing the CCFs. Its importance is seen to not simply lie in the assurance of a more efficient system of information gathering and storage, but also in the belief that it allows access for more people to such information. This is in keeping with the beliefs of the modern banking system of which the credit unions too invest. From ADATS experience the use of such technology need not only be restricted to the literate. ADATS recognises that "semiliterate Coolies are quite capable of handling a sophisticated Management Information System in order to obtain objective information, apply their own subjectivity… and come up with very good political decisions and make good policies",(ADATS:1998:3:15). This is evident from the frequent use of computer printouts at not only central office level, but also village level, to help in decision making regarding loan sanctions. However ADATS also reported some drawbacks related to not having access to such information, (ADATS: 1998:1). Some CCFs who could not avail of technology within their village and when wishing to administer loans or access or record information, had to travel as far as Bagapelli to complete such work. This led to inefficiency and often inaccurate recording of information due to, among other things, a time lag or simply inaccuracies in memory. Thus the importance of a clear and reliable information system is essential for the efficient operation of the Coolies credit initiative.

The uses of such technology are being constantly reassessed by the CCFs and it is hoped that it may soon become more decentralised so that villages will have access to not only the work of the computer but also to the computer itself. This ADATS believes will allow for closer monitoring of trends in both individual and overall borrowing, even if loans are given out on different terms and conditions, for different purposes, and with different repayment schedules. Plans are also under way to make such computer held information accessible in the local language. This is something that both banks and many growing credit unions must address if they are to remain within the parameters of present and potential customers or members. Access to information in a language familiar and friendly to people is essential if empowerment and sustainable development is to take place. This is an essential element of the whole development process. It allows people to not only access existing information in a language familiar to them but it also allows them the power to take part and contribute in future development debates.

CCFs are managed by the Coolies themselves along strict guidelines. All loans have to be approved by the CSU, the Manila Women's groups, and the Cluster meetings. In this way the decision making process is clearly in the hands of the community. While CCFs strive to operate on a professional basis, they nevertheless do not attempt to become self-serving or alienating institutions. This is born from desire to address the issue of accessibility for all by integrating the positive techniques used in the mainstream banking world with that of the people driven principles of the CCFs. Therefore a strict code of book-keeping together with the latest possible technology is promoted by the CCFs, to ensure viability in not just a social sense but also a financial one. The CCFs therefore operate a personalised system of lending and repayments, where the borrower decides alongside the CCF on the rate and length of repayment. This adds weight to the necessity, in such an interest free system, of a proper system of banking funds in order to maintain a clear and concise account of all transactions. All CCF transactions are recorded in proper bank accounts which are opened in the names of each village level CCF and are seen as branch accounts of the Bagepalli Coolie Sangha. However as such banks accounts carry interest, it must be noted that this is in conflict with the ideas of interest free banking which I detailed in chapter 3. While such banking does not directly affect the issue of exclusion for some members of the community, it may in the long-term due to CCFs transference of their banking charges onto their members. Whether there is an alternative and whether such an issue can be looked at for improvement is unfortunately beyond the scope of this dissertation, but is one that both the Coolies and ADATS must reflect upon.

All CCF loan transactions are done by cheque, and while ADATS initially retains a cheque signatory control, as soon as fiscal, institutional and managerial discipline has been achieved and a proven track record is evident within the CCF, ADATS hands over control of the cheque signatory to the CCFs. Desk Workers within the villages maintain the CCF account books, pass books and cheque books at the Taluk Headquarters. It is the job of the Extension Workers to supply updates to the executive assistance on the repayment patterns of the CCFs, and to ensure that all mutually agreed upon procedures are met and acted upon. This they do with the help of the Village level workers, the Community Workers and the Field Workers. While some such workers may not be members of the community, as the Coolies become familiar with the institution, they will slowly replace members of ADATS who have been brought in from outside, to assist in the formation phase of the CSUs.

Credit unions promote the idea of compulsory savings and repayment with continued savings in order to both encourage the idea of saving among members and build up the credit union capital base. Some may argue that this places a lot of pressure on people who not only have to deal with repayment but also the pressure of committed savings. This, it is felt, excludes the more economically disadvantaged, as it puts a greater financial burden on the borrower. Thus access to credit may be hindered.

JAK too promotes the idea of compulsory savings. All members must have saved in a common pool for at least 6 months, before borrowing. The amount a member is permitted to borrow is determined by the amount of savings, how promptly they can repay and how much money is available in the common pool. However an “extra loan” which is in effect larger than a members entitlement can be granted provided “after savings” are increased to meet the debt. Unlike the credit union, no interest is paid on savings, which keeps in line with JAK policy of no interest charged on borrowing. Nevertheless the issue of compulsory savings has according to Hofford excluded potential productive loans borrowers who, she feels, are not willing to have to save for an extended period of time, before gaining access to credit, (1998). JAK recognises the importance, as does Islamic banking, of attracting savings in order to build up a capital base. Its policy of compulsory savings allows for the build up of a capital base which in itself assists in its aims as an alternative to mainstream banking and its hope of self-sustainability. However Islamic teaching also promotes the idea that in times of high demand for capital, entrepreneurs should offer the bank a higher profit-share, thus encouraging savings from members who in effect will receive a share of such profit. In times of a low demand for capital, the process should be reversed thereby reducing the supply. While JAK has not yet developed its productive loan process to include such a policy, it has however developed a system, whereby long term savings achieve maximum borrowing rights. This, in view of the fact that borrowing is interest free, is in itself an attractive package for both consumption and production loans.

JAK also allows members to earmark their savings for particular lending, such as environmentally friendly, educational, or mental or physical health projects. However JAK recognises the weakness in compulsory savings in relation to the exclusion of those who cannot afford to save. It proposes to tackle this by introducing a greater than normal total savings performance in order that a self-generating fund can be built up to help the less financially viable. Also as collateral is normally used as insurance against borrowing, JAK plans to introduce a loan insurance programme, where people pay a premium in order to cover against losses, for those potential borrowers who lack collateral. An exceptional part of JAK policy in relation to savings, is the transfer of borrowing rights, by loan or as a gift. This allows members to assist each other in obtaining loans. Additionally members can to some extent choose who they wish their savings to be lent to. This allows for true community savings and credit, and reflects clearly the Islamic system of Mudarabah.

CCFs on the other hand do not promote compulsory savings, believing instead in offering people the quickest chance to make money and repay borrowing. As they do not envisage themselves competing against the mainstream banking sector, their focus on building up a capital base is not that strong. Their capital base resource comes via ADATS from their northern NGO partners. Not insisting on compulsory savings, they believe ensures the speedy turnover of and quick repayment to the revolving fund, thereby turning the wheels of their own prosperity, and allowing access to more people, particularly the more economically marginalised. However, if CCFs were interested in becoming self sustainable, both the credit union and JAK's idea of compulsory savings is worth considering and maybe adapting. It would allow for the build up of a capital base that was not determined by the charity of NGO partners. Likewise for a speedy form of repayment that enables more lending, the credit union and JAK might consider not insisting on compulsory savings, both before and during borrowing.

Such issues lead me on to the fourth and final area that I feel needs to be addressed in order to reflect on the viability of interest free credit unions. Together with those already discussed, I believe the economic viability of such a system must be proven. I have already touched on areas of economic viability above. However, I now propose to further reflect and discuss the importance of this.

Is the Importance of Economic viability recognised?

In Chapter 3, I discussed how interest free credit schemes are economically viable and promote a belief in the integration of an economic, institutional and social based policy on lending for the good of not just the individual but also the community at large. Having already discussed the role of both JAK and the CCFs regarding their policies on socio-cultural responsibility and institutional viability, I now propose to reflect on the economic viability of these 2 case studies by drawing on the elements of interest free credit that was detailed in the previous chapter. As detailed earlier the majority of JAK loans are administered for consumption purposes, 90% of them being for house purchases. This has allowed for the build up of long term services. JAK charges a fee to cover administration expenses which can be paid in installments over the repayment period. However JAK does have plans to introduce an interest free profit and loss sharing loan instrument specifically geared towards financing businesses. This JAK feels will have an indirect impact on unemployment by allowing businesses to redirect the money normally used on interest payments to the purchase of more goods and the employment of more people. If a business fails, JAK believes it must carry the burden of losing the loan while the entrepreneur loses all their work. JAK believes this to be fair in view of the fact that no business venture can be 100% safe. JAK hopes to invest in environmentally sound projects, thus promoting the idea of a social based lending system, that until now mainstream banks up have tended to ignore in favour of high yield large scale projects, such as the building of nuclear plants.

Credit, the Coolies argue is needed for both investment and daily living expenses. Lending for production helps directly to build up capital thus allowing for the eventual enterprise in more mainstream markets. Consumption loans allow people the ability to acquire basic necessities in life. The Coolies place as much emphasis on consumption loans as production loans.

However it is a familiar pattern in all CCFs for the greatest percentage of loans to be administered for production purposes. Investment in cattle rearing and crop growth comprises the greatest use of loans. As noted earlier, in general the poorest of the Coolies borrow the least and this borrowing is usually for consumption purposes. In addition to this, the 10% donation to the Sangha Funds adds quite a burden to the borrower. This must be worth noting and maybe investigating if interest free credit unions are to offer accessibility to, and viable for all. Consideration of the suggestions made in chapter 3 of possible methods of covering the costs of consumption loans are worth examining by the CSUs. One such suggestion is that in a system where profit-and-risk sharing for production loans is implemented, profits should be used to cover the costs of consumption.

The idea of profit-and-risk sharing (Mudarabah and Musharakah in Islam), has been considered by ADATS and the Coolies, in relation to the CCFs. Ram Esteves, Director of ADATS, believes that the Coolies by the very fact that they promote the idea of the development of the whole village / society actually share risks and profits in each venture that the CCFs sponsor, (1998). This can be seen when indirectly the whole village benefits if one member of a CCF prospers from a venture they have borrowed for. The social responsibility that the CCFs undertake is further evident from the insurance that they place on all sheep bought through CCF loans. In addition purchase committees exist to assist in such purchases in order to help minimise exploitation of members. The willingness to renegotiate loans if the borrower finds themselves in difficulty or the very fact that members cover defaulted debts also highlights the belief by the Coolies in communal risk sharing. However CCFs, unlike Islamic banking, do not negotiate a profit-share for both parties before a loan is given. This practice may be based on the overall aim of CCFs, which is not built on the idea of self-sufficiency, but is rather aimed at strengthening the economic base of the Coolies in order that they can enter the "mainstream reality of institutional finance", (Esteves:1998). Such an absence of emphasis on self-sufficiency draws into question the long-term viability of the CCFs. However, I believe that their success, which we see evident in the short term, can become long-term by the implementation of some of the proposals in Chapter 3.

Presently however the CCFs, while partially covering their costs, such as depreciation, inflation and bad-debts, from the donations of members to the Sangha funds, are by and large financed through ADATS by northern NGO partners. This needs to be addressed if the CCFs are to stand as an example of the long-term viability of interest free credit. ADATS however, as already mentioned, see the mainstream banking sector as too strong to compete against. The CCFs are therefore seen more as an instrument in “weaning first time entrepreneurs through their initial enterprises”, (Esteves: 1998). Capitalism they believe can be improvised to develop a bottom up approach to development thus remoulding the present system to suit the emerging needs of the more marginalised members of society. This argument in itself reflects the strengths of an interest free system, where access to such a system allows the build up of an economic power base within a sustainable economy, for those previously at an economic, and consequently social disadvantage in society. I believe that if such a system can operate with such success in the short-term, that there is no reason why it cannot do so in the long-term. By developing the idea of profit-sharing on production loans and charging a fixed fee on consumption loans, I believe this can be achieved.

JAK on the other hand, recognises the inequalities that exist with capitalism, and the effects it has on the quality of people’s lives both financially and environmentally. They therefore aim to act as an alternative to mainstream banking, by working towards a sustainable system of self-financing interest free credit. To achieve this, they recognise the difficulties of covering costs, particularly when existing in a world of erratic inflationary trends and unstable money markets. This was reflected by the closure of JAK in Denmark in 1973, when inflation became so high that demands for loans grew dramatically alongside an equally dramatic fall in savings. JAK Sweden realised from this, and the huge demand for loans in the mid 1990's due to high inflation, that savings are an essential element in sustainability and the covering of expenses. Such savings JAK divided into pre and post borrowing savings, the latter being paid alongside the loan. This, like the credit union, helps sustain a capital base, thus assisting in the assurance of financial sustainability.

Having reflected on the merits and weaknesses of such interest free systems it remains to be seen whether or not there has been an overall improvement in the lives of those participating. Such improvements should not simply be measured in economical or financial terms, but also in the social quality of peoples lives.

JAK unlike CCFs, has placed more of an emphasis on the financial sustainability and viability side of its organisation, as opposed to the CCFs emphasis on the conscientisation of its members and the build up of an economic base of its people in order that they may compete in the capitalist market. Regarding its financial status, its emphasis on savings, and in view of the fact that it has just been granted a banking license, I believe that JAK will achieve its aim of proving to both members and non-members the viability of interest free credit. This is further evident from the statistics available from JAK in January 1998, where it is recorded that in 1990, 1991, 1996 and 1997, 0% of loans defaulted. Between the years 1992 and 1995 on average only 1.5% of loans defaulted. As 90% of these loans were for housing, it is clear that while one may not be able to relate it to an overall reduction in poverty, it does allow people access to home ownership that they may not otherwise have been able to obtain. This in itself assists in the building of security and stability in society.

JAK recognises its potential for success in being part of a mainstream banking network, devoid of the pressure interest brings with it. However, it was its membership in excess of 1000 people that allowed such a license to be granted. JAK recognises that its growth in size, as opposed to small credit co-operatives may act to exclude many. They also recognise the danger of this putting pressure on them to reduce their emphasis on ideological work. This they fear could reduce their volunteer base. However JAK are hopeful that the Swedish government may legislate to allow smaller institutions licenses, thus taking pressure off them to remain above 1000 members. I am also hopeful that with such strong ideological beliefs JAK will not be swallowed up by the globalisation of the capitalist banking system. JAK also recognises the importance of remaining accessible to all with regards to borrowing and has recognised the danger of compulsory savings in excluding people. As noted earlier, it has already begun to address this issue.

As the CCFs are part of a larger movement for Coolie development, namely the CSUs and the overall umbrella organisation, the Bagapelli Coolie Sangha, it would be wrong to reflect in isolation, on the sustainability of the CCFs. The many sub-groups surrounding the movement, for example, the women only Manila meetings or the Cluster meetings, have led to a decentralised and grassroot system of management, where all members participate in the decision making process, and in this way build up a sense of strength and empowerment from each other. The Coolies now realise that they have the means and resources to help themselves. The development of such a close knit sense of community, where the success of one has a positive impact on others, allows for the continued growth of the CCFs, and the possibility of their long-term sustainability. Such a growth in the Coolie's sense of self worth is evident, when after only a few months of ADATS involvement in a village, the Coolies are already discussing how they will manage after ADATS involvement has been withdrawn, (ADATS:1998:1).

For many however, the ultimate measure of success is a reduction in poverty. ADATS highlights many examples of Coolies who have benefited and prospered from CCF loans, (ADATS: 1998:3). They also make note of some statistics which reflect the impact of the CCFs on communities in the Bagepalli region of India. An example of this is the North Kolar district during the period October 1996 to March 1997. Repayment rates in this region were over 90%. Such high rates reflect an ability to repay from profits earned on borrowing. Only 2% of loans overdue were more than a year late. The importance of repayment is thus reflected, but together with this is the ability to repay on time, suggesting that the CCFs are investigating before lending and are therefore achieving their goal of lending for the benefit of the individual and the community, (ADATS: 1998:3). Such positive rates of repayment not only encourage more loans to be made, but also guarantee an added bonus in the form of the 10% donation to the Sangha Funds by each borrower. In this way the more members that borrow and repay, the greater the growth in the Sangha Fund and the speed that funds revolve. This allows for more members to borrow and thus prosper. This in itself becomes a spiraling process of continued growth for the community at large, as people ultimately borrow from each other to assist in each other’s financial growth.

However the danger of financially poorer members of the community not availing of credit due to their lack of basic resources is worth noting. The pressure of compulsory savings in JAK and landless Coolies’ reluctance to borrow because of a lack of capital, are examples of this. These people must not be forgotten and their situation must be dealt with if the CCFs and JAK are to avoid becoming financial institutions that serve to assist the “elite” of the community only. Therefore a main point in my findings must be reflected on yet again; that is the necessity for an intersectoral approach if interest free credit is to be truly viable for all. Such intersectoralism includes recognising socio-cultural and economic differences, particularly when many people possessing no material resources, find it very difficult to begin to help themselves with loans for productive purposes, or when compulsory savings are placed on people with irregular incomes. This must be reflected upon, in order to avoid the possibility of such a group of people becoming alienated from the opportunity CCFs and JAK offer, of not only financial but also social prosperity and empowerment.

Although JAK's system of operation varies radically from that of the CCFs, its view of a social policy of equity does not. Such a system too operates within the credit unions. However credit unions, by charging interest exclude some members of society. Both of the above case studies attempt to address this. Neither may have got the formula for success completely right. However more than anything, both have attempted to root themselves in the social and cultural values and economic climate around them and from this basis have sought to improvise and develop unique systems of operation suited specifically to their needs.

In this chapter, I have looked at the viability of interest free savings and credit by the examination of 2 case studies. My findings reflect the importance of an intersectoral approach in order that credit schemes are viable. While credit unions today do address these issues, and for most people are very successful in doing so, their charging of interest does exclude some sections of society. The 2 case studies presented reflect that it is possible for credit unions to consider and implement and interest free scheme in order that the excluded are included and accessibility for all achieved.

CHAPTER 5: CONCLUSION

Synopsis

This dissertation explored the viability of interest free credit unions for marginalised communities. My interest in this subject stems from the belief that access to credit is one of the vital tools of empowerment and as such is essential for marginalised communities. Therefore I undertook the task of addressing the issue of exclusion from mainstream banking, for such communities and explored the credit union movement's attempt to deal with this problem. I noted that while credit unions have come a long way in providing access to affordable credit for many people, there are still others who remain marginalised. Reasons for such marginalisation, I noted may be social, economic, cultural or religious. Following the identification of what I believed to be short-fallings within the credit union movement, I proposed the concept of interest free credit unions as an alternative. I laid a basis for such a proposal by detailing the arguments prominent economists put forward in favour of the above. Finally I presented 2 case studies of interest free credit schemes as examples of how credit unions could adapt their present mode of operation in order to include the excluded, thereby making credit unions more accessible to the marginalised.

Having researched, developed and detailed my argument, I conclude that while interest free credit unions are viable, they can only be so if certain criteria are met which ensure sustainability. Interest free credit schemes, unlike the mainstream banking sector and to some extent credit unions, are dependent on not just financial sustainability, but also socio-cultural, institutional and economic viability. Interest free credit unions must exist within a strong community where a common bond of mutual respect and interest in the well-being of all is shared. Interest free credit unions must also maintain the already existing institutional stability of present day credit unions. Such strong administration and management can help ensure that detailed records are kept for all to see. Transparency is essential so that a common bond of mutual respect is ingrained into the institution. As with all financial institutions, economic viability is essential for sustainability to be insured. Thus, while interest bearing institutions ensure sustainability through profits from interest, interest free institutions are dependent on members investing borrowed money on financially viable projects. The idea of profit-sharing in production ventures is therefore strongly proposed, and this in itself compounds the necessity for a well run institution, a strong sense of community and transparency in operation. In order for this to be achieved, I also feel that interest free credit unions would need to remain community based, to allow all members to know and trust each other. Therefore interest free credit unions, in my opinion, are viable and can assist in the empowerment of marginalised communities. However it must be strongly emphasised that it is not simply the exclusion of interest that deems it successful, but rather the combination of factors detailed throughout my study.

Limitations of my study

This dissertation has begun for me a journey of discovery, regarding the possibilities for access to credit for marginalised communities. It is a journey that I feel will be ongoing. Therefore although I have presented a case in favour of interest free credit unions for such communities, I also wish to emphasise its limitations.

- In the first instance, the bulk of my argument derives from Islamic sources and one may say that this in itself is an alienating factor for many who would not subscribe to such doctrines. However such doctrines merely preach a belief in social responsibility and respect for fellow humans. Furthermore all such doctrine is backed up by a clear and concise economic argument.

- Secondly as was noted, the 2 case studies presented as examples of the possibility of interest free credit unions, are not themselves credit unions. Therefore one may say that my argument lacks credibility. However, while I accept such reservations I do believe that fundamentally the 2 cases share with credit unions the same social philosophy, and as such can be adapted.

- Thirdly, my study has been based on secondary sources, (Letters, E-Mails, Journals, Conversations, Books), and therefore lacks first hand practical experience. This is something that should be noted for future studies which might be based on involvement in an actual interest free scheme.

- Finally, time has also acted as a constricting factor and I would therefore see my dissertation to be an extract of a debate that will hopefully be ongoing and involve more practical and grassroot research.

BIBLIOGRAPHY

ABCUL (1998:1) How to Start Your Own Credit Union, Manchester: ABCUL.

ABCUL (1998:2) an Introduction to Credit Unions and ABCUL, Manchester: ABCUL.

ADATS (1993) Documents of ADATS, Book 3 (1988 to 1993): Karnakata: ADATS.

ADATS (1996) Gender Policy Paper: Karnakata: ADATS.

ADATS (1997) Documents of ADATS, Book 4: (1994-1997): Karnakata: ADATS.

ADATS (1998:1) Documents of ADATS, Book 5: Karnakata: ADATS.

ADATS (1998:2) Documents of ADATS, Book 6: Karnakata: ADATS.

ADATS (1998:3) Documents of ADATS, Book 7: Karnakata: ADATS.

ADATS (1998:4) A Survey of the Financial and Credit Environment in the Region, September, Unpublished Research report, Karnakata: ADATS.

Aktie Strohalm (1995) Towards a Sustainable and Equitable Future. Grassroots' Campaign, "The Last straw", The Netherlands: Aktie Strohalm.

Albee, A & Gamage, N (1996): Our Money Our Movement, Building a Poor People's Credit Union: London: Intermediate Technology Publications.

Almgren, P (1987) We need an Interest-free economy. (Translated offprint from Rantefri Ekonomi, December), pp 1-4.

Ayaya, O (1996) An Appraisal of the Status of Savings Management through Cooperation Credit Unions in Lesotho. Development Southern Africa, Vol.13, No.4, pp 581-597.

Barham, B.L et al. (1996) Credit Constraints, Credit unions, and Small-Scale Producers in Guatemala: World Development, Vol.24, No.5, pp 793-806.

Brant, M (1997) Where Credit is Due. Newsweek, February 17, p. 35.

Carmen, R (1996) Autonomous Development: Humanizing the Landscape: London: ZED Books.

Chapra, M.U (1986) Towards a Just Monetary System. Leicester: The Islamic Foundation.

Christen, R.P (1997) Where Credit is Due. The UNESCO Courier, January Issue: pp 18-20.

Cousins, R (1998) The Big Issue brings you a Guide to Irish Credit Unions. The Big Issue, Issue 91, pp 36-46.

Daly, M & Walsh, J (1988) Moneylending and Low Income Families: Dublin: Combat Poverty Agency.

de Stemper, G.A (1987) The Role of Credit in Development Projects: The Credit Union Movement in Togo. African Review of Money, Financing and Banking, No. 1, pp 212-216.

Devereux, S & Peres, H (1990) Credit and Savings for Development: Oxford: Oxfam.

Douthwaite, R (1996) Short Circuits: Dublin: Lilliput Press.

El- Tom, A (1994) Mugging the Poor; London: IFAA.

Esteves, R (1998) In E-Mail Discussion, 19 August 1998.

Finamore,S (1996) Self-help Finance for the Poor. Footsteps, No.26, March 1996, pp 1-3.

Ford, J (1991) Consuming Credit: London: Child Poverty Action Group.

Freire, P (1997), Pedagogy of the Oppressed: London: Penguin Books Ltd.

Gillespie, P (1998) Naked Capitalism and the democratic deficit. Irish Times, August 15.

Hofford, D (1998) JAK ekonomisk forening (Sweden): February 1998, pp 1-11.

Hogan, E (1998) Finglas Money Advice and Budgeting Service: A Review: June 1998: Dublin: Combat Poverty Agency.

http://www.cu.org/cunist.htm (1998) A Brief History of the Credit Union Movement. The Credit Union Home Page: July 8: pp 1-7.

ILCU (1995) Credit Union and You.: Dublin: ILCU.

ILCU (1996:1) History and Philosophy Handout: August 1996: Dublin: ILCU.

ILCU (1996:2) Annual Report: Dublin: ILCU

ILCU (1998:1) Irish Credit Unions Aid Montserrat. REVIEW, February-March, p. 5.

ILCU (1998:2) Caherdavin Celebrates New Look. REVIEW, February-March, p. 10.

Johnson, S & Rogaly, B (1997) Microfinance and Poverty Reduction: Oxford: Oxfam.

Keynes, J.M (1957) The General Theory of Employment, Interest and Money: London: MacMillan.

Mannan, M.A (1989) Economic Development and Social Peace in Islam: Bangladesh: Bangladesh Social Peace Foundation.

Marrow, I (1998) Credit Union Turns Corner. The Manchester Evening News, June 19.

Masood Khan, W (1985) Towards an Interest free Economic System: Leicester: Islamic Foundation.

Max-Neef, M (1982) From the Outside Looking In - Experiences in Barefoot Economics: Sweden: Uppsala.

Mayo, E (1996) Community Banking: A review of the International Policy and Practice of Social Lending: London: New Economics Foundation.

Nagarajan, G et al. (1995) Effects of NGO Financial Intermediation on Indigenous Self-help Groups in The Gambia. Development Policy Review, Vol.13, pp.307-315.

New King James Version (1996) Holy Bible: Nashville: Thomas Nelson Publishers.

Onimode, B (Ed.), (1989) The IMF, The World Bank and The African Debt. London: ZED Books.

Onimode, B (1997) Out of Africa. Channel Four Productions: MD 234 Video.

Oxford English Dictionary (1969): Oxford: Oxford University Press.

Padmanabhan, K.P (1988) Rural Credit, Lessons for Rural Bankers and Policy Makers: London: Intermediate Technology Publications.

Quinn, P and McCann, T (1997) Access to Credit Facilities for the Traveller Community in the Greater Dublin Area.

Qureshi, A.I (1991) Islam and the Theory of Interest: Lahore: Ashraf Printing Press.

Rahman, S (1997) Reaching the Unreached. The UNESCO Courier, January Issue: pp 10-11.

Regan, C (1996) "…Armed with a Confidence…" Selected Case Studies From CIDSE's Credit and Savings Programme Vietnam: Brussels: CIDSE.

Rimmer, A (1997) Power and Dignity:Women, Poverty and Credit Unions. Gender and Development, Vol 5, No.3, pp 26-34.

Samuel, R & Titus, M (1996) Asking Tough Questions. Footsteps, No.26, March 1996, p. 16.

Siddiqi, M.N (1988) Banking without Interest. Leicester: The Islamic Foundation.

Skully, M and Ho, R.Y.W (1993) Credit Unions in Hong Kong. Savings and Development, No. 1, xvii, pp 61-74.

Smith, M (1998) Faith Healing. The Guardian, August 26.

Srinivas, H (1998) Virtual Library on Microcredit. 7 June, http://www.soc.titech.ap.jp/icm

Thiongo, N.Wa (1997) Decolonising the Mind: Oxford: Heinemann.

Vickers, J (1991) Women and The World Economic Crisis: London: ZED Books. Vincent, F (1995) Alternative Financing of Third World development organisations and NGOs, Volume 1: Switzerland: IRED.

Vincent, F (1995) Alternative Financing of Third World development organisations and NGOs, Volume 1: Switzerland: IRED.

Visser, W (1997) Are Loan Sharks the Real Predators in the Financial Ocean? SANE Money Values, 8 September, moneyvalues@stones.co.za

Wales Co-operative Centre (undated) Credit Union Fact Sheets: Cardiff: Wales Co-operative Centre.

Yunus, M (1997) A Bank for the Poor: The UNESCO Courier, January Issue: pp 20-23.

Yunus, M (1994) Grameen Bank, Experiences and reflections. Cultures and Development, No.19, pp 36-39.