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ISLAMIC MICROFINANCE AND MAQASID SHARIAH: AN OEVERVIEW OF SELECTED EXPERTS

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Abstract

Although the Islamic banking industry is growing extensively, however the industry are still out of reach from the hardcore poor. The population under poverty remains financially excluded from the mainstream banking services. This is relatively opposite from the purpose for which Islamic banks were created which is *maqasid Shari'ah*. Islamic microfinance institutions (MFIs) on the other hand trying to financially include those who have no access to mainstream banking. The aim of this paper is to assess what extent to which the activities of Islamic MFIs are fulfilling *maqasid Shari'ah* based on expert perspectives. By carrying out qualitative approach, the paper employs semi-structured interviews of seven experts to understand the degree of achievement by Islamic MFIs with respect to *maqasid Shari'ah*. The study indicates that the current practices of Islamic MFIs are not really in line with *maqasid Shari'ah*. The study also suggests that Islamic microfinance should focus on community-based activities as they may utilize funds from Islamic philanthropy such *zakat*, *awaqf*, *shodaqah* and CSR (corporate social responsibility). Finally, role of government, education program and funding issues appeared to be the main obstacles of Islamic microfinance to achieve *maqasid Shari'ah*.

Keywords Islamic microfinance, *maqasid Shari’ah*, qualitative, Interview.

Introduction

Shari’ah-based economy framework with attributing social objective is a broad term of sharia-based finance. Focusing on equal distribution in economic growth indicates realizing of *maqasid Shari’ah* which is posed by Islamic economic objectives (Ahmed, 2011).

Siddiqi (2004) states the principle objective of this framework is to understand the *maqasid Shari’ah* which supposed to show in the economy as empowering development and equity. This indicates more than achieving the legal forms, promoting social needs of a society also should be achieved by Islamic financial system. However, the most important issue emerges when Islamic financial institution try to construct financial products and services that is in line with *Shari’ah* without compromising the importance of commercial viability. In fact, some debt-based instruments such as *Bai` Bithaman Ajil* - deferred cost-plus sale, Islamic credit card, Islamic overdraft, etc are among most favored financial product offered by many Islamic banking although these are considered as controversial product because of containing buy back sale (*bay’inah*) (Dusuki and Abozaid, 2007).

Some believed that Islamic microfinance is one of viable alternative platform that can fulfill the *maqasid Shari’ah* with respect to public interest (*maslahah*). Ahmed (2002) argues that Islamic MFIs have an advantage over Islamic bank since it can use Islamic charitable funds such as *zakat*, *infaq*, *sadaqah* and *waqf* as its sources of fund to finance productive activity of the poor. Abdul Rahim (2007) also asserts that main objectives of microfinance schemes to alleviate poverty and to enable the poor to empower themselves are in line with the Islamic economic principles of justice. Dhumale and Sapcanin (1999) argue that Islamic MFIs may follow the theoretical practice by investing in capital and the clients investing in labour. Such practice is very difficult to be implemented in the Islamic banks as they do not want to be involved in high risk. In *murabahah* financing, Islamic banks will appoint the client as an agent to buy a specific product that is requested by the client and sell the product to the client at cost plus mark up (Rosly, 2005). Islamic MFIs, however, their officer buys the specific product as requested by the clients and sell them to these clients at cost plus mark-up for administrative cost (Dhumale and Sapcanin, 1999). In

terms of collection period, the profit and profit sharing charged by Islamic MFIs along with repayment of principle are collected daily or weekly (Ahmed, 2004). This practice is rarely found in the Islamic banking industry.

Meanwhile, some conceptual studies about Islamic microfinance that were conducted by Ahmed (2002), Dusuki (2008) and Abdul Rahim (2010) concluded that Islamic microfinance has great potential to cater the needs of poor. While, an empirical study was conducted by Adewale and Mustafa (2010) found that Islamic micro finance affects positively on poverty alleviation. They argue that the appositeness of an Islamic microfinance model based on the *maqasid Shari'ah* is advanced as a viable alternative to break the poverty.

However, the study revealed that Islamic MFIs lack of product diversification, offering only one or two Islamic financing products and over 70 percent of the products offered are *murabahah* (Md. Saad, 2012). According to Ahmed (2002) in current practice of Islamic MFIs initially have tried to follow pure *murabahah* but with the expansion of their operations, Islamic MFIs have gradually neglected the practice. Instead of giving money to the beneficiary, the Islamic MFIs now hand-over someone else to buy the good/asset. Such practice was applied by three Islamic MFIs in Bangladesh such as Al-Fallah, Rescue and Noble (Ahmed, 2002). *Murabahah* financing is also applied in Indonesia's BMT as studied by Nurkholis (2010) and in Yemen's Hodeidah as studied by Al-Zam-Zami and Grace (2002). With regard to the issues, the question is? How far has actually the Islamic microfinance been in line with *maqasid Shari'ah*?

The main objective of Islamic law is to promote welfare or benefit (*maslahah*) of mankind and prevent harm (*mafsadah*). Despite almost all the scholars of *maqasid* are unanimous about the general objectives of *Shari'ah*. However, some scholars like Ibn Ashur have little different particularly in specific objectives of the *Shari'ah* but they are virtually similar. Ibn Ashur mentions that the specific objectives of the *Shari'ah* should include the preservation of order, promotion of human welfare, prevention of corruption, establishment of justice and, maintaining stability and harmony (al-Raysuni, 1992). Meanwhile, Al-Ghazali emphasizes on five objectives of the *Shari'ah*: faith (*din*), the human self (*nafs*), intellect (*'aql*), posterity (*nasl*) and wealth (*mal*) (Chapra, 2007). Ilal al-Fasi includes in his classification objectives such as reforming the human mind,

developing the earth, managing benefits for all, preserving order and system of livelihood, establishing justice and, utilizing Allah’s natural resources (al-Raysuni, 1992).

Abu Zaharah (1997 cited in Mohammed et al., 2008) classified specific objective of *Shari’ah* into three broad areas, namely:

- (1) Educating individual (*Tahdhib al-Fard*): education encourages people with faith and *Taqwa* (consciousness of Allah s.w.t.) in order to accomplish public objectives. A truthful and moral person can emerge as representative of others and bearer of the ruling of *Shari’ah* related to *ibadah*, *mu’amalah* and *jinayah* (Lahsasna & Sulaiman, 2010; Mohamed, 2006).
- (2) Establishing justice (*Iqamah al-`Adl*): one of the objectives of the *Shari’ah* is to maintain the standards of justice (‘*adl*). It must be based on creation of equilibrium which accomplishes rights and responsibilities on one side, and abolishes unfairness and inequality on the other. It must embrace both individual and social justice, regardless whether it is a case of friend or foe, Muslim or non-Muslim, personal or public. Illicit behaviors and wrongdoings are disapproved and punished in order to avoid injustice as it is undesirable and contradictory with the philosophy of *Qur’an* and the *maqasid Shari’ah* (Lahsasna & Sulaiman, 2010; Mohamed, 2007).
- (3) Promoting Welfare (*Jalb al-Maslahah*): every result in *Shari’ah* appears with reasoning and wit a purpose, which is to cover and protect public interest (*maslahah*) in all aspects and segments of life. It should also be observed that in specific occasions emergence of arguments between endorsement of benefit and avoidance of evil arise. If none appears to be preferable, then avoidance of evil takes precedence over the recognition of benefit (Chapra, 2007; Hasanuzzaman, 1998; Lahsasna & Sulaiman, 2010)

While Islamic microfinance has been adapted as a platform to alleviate the poverty, it is rather hard to find the literatures which directly relates to Islamic microfinance and *maqasid Shari’ah*. Thus, this study attempts to examine the degree of achieving the Islamic microfinance on *maqasid Shari’ah*. The study also identifies the driving forces behind Islamic microfinance and its obstacles to achieve *maqasid Shari’ah*.

The following section is the literature review on Islamic microfinance: an overview, Islamic microfinance issues and previous studies on Islamic microfinance.

Islamic Microfinance: An Overview

According to Obaidullah (2008) microfinance implies provision of financial services to poor and low-income people whose low economic standing excludes them from formal financial systems. The success of conventional microfinance institutions also supports the development of faith-based microfinance services including Islamic microfinance institutions. Obaidullah (2008) states the establishment of these institutions is supported by the fact that over 1.2 billion Muslims, covering from Senegal to Philipines are living below poverty levels in both urban and rural parts of the world. Despite rapid expansion of various microfinance service provided by conventional financial institutions in these countries, there is still a big demand from Muslims but they are not comfortable to apply for financial services since these conventional financial institutions are operationally based on interest (*riba*) that are prohibited in Islam (Abdul Rahim, 2007).

The motivation of Islamic microfinance institutions (MFIs) established is basically supported by Islamic teachings as explained in one *hadith* where Prophet Muhammad (p.b.u.h) taught a man who begged from him⁶⁶⁸.

The Prophet (p.b.u.h) asked the man what he had in this house and the man replied that he only had a piece of cloth, which he wears, and a woden bowl from which he drinks water. The Prophet (p.b.u.h) then asked the man to bring those things to him and he took them in his hands and asked the assembly of people. “Who will buy these?” A man said, I shall buy them for one dirham. Prophet (p.b.u.h) asked twice or thrice: “Who will offer more than one dirham?” Another man said, I shall buy them for two dirhams. The Prophet (p.b.u.h) gave these to him and took the two dirham and gave them to the man and said, “Buy food with one of them and hand it to your family and buy an axe and bring it to me. The man then brought the axe to him. Prophet (p.b.u.h) then said, “Go gather firewood and sell it, and do not let me see you for a fortnight”. The Prophet (p.b.u.h) then said: “This is better for you than that begging should come as a spot on your face on the Day of Judgment”.

Begging is right only for three people: one who is in grinding poverty, one who is seriously in debt, or one who is responsible for compensation and finds it difficult to pay

⁶⁶⁸ Dawud, Kitab Al Zakat, Book 9, Hadith 1637 cited in Obaidullah (2008)

(Obaidullah, 2008). The *hadith* above teaches about empowering the poor which is reflected in the practice of microfinance program.

Issues in Islamic Microfinance

Islamic microfinance providers offer services at a micro-level directly to poor and low-income clients. However, it is undeniable that a number of issues are in play. Ahmed (2002) highlights dilution in the use of Islamic financial instruments like *Murabahah*. He mention giving away cash to the beneficiary instead of supplying goods or assets can result in diversion of funds to other uses causing moral hazard problem. Akhter et al. (2009) highlights critical financial analysis of Akhuwat microfinance in Pakistan that indicates that loan portfolio growth of Akhuwat declines with the sharp decline of equity growth over the last 5 years that might have potentially some constraints on its financial stability in future.

Islamic MFIs do target the poor, but in actual fact only a segment of the poor: the enterprising poor. As Seibel (2006) highlights lending to the poorest who lack resources and entrepreneurial experience would be risky and speculative; it would thus be contrary to the notion of a partnership between borrowers and the providers of capital, i.e., depositors and bank owners. In term of accountability, Wahyuni (2008) investigated Islamic microfinance in Indonesia. The study found lack of a supervisory board and only 7-20% of BMTs are audited by independent auditors.

Previous studies on Islamic Microfinance

Ahmed (2002) assesses the theoretical basis, operational framework, and empirical support for the establishment of Islamic MFIs. Theoretically, Ahmed argues that there is a great potentiality of Islamic MFIs can cater for the needs of the poor and Islamic MFIs have some essential characteristics that can mitigate some of the problems faced by conventional MFIs.

Dusuki (2008) reviews the microfinance scheme and discusses how Islamic banks can participate in alleviating poverty without compromising the issue of institutional viability and sustainability. The study highlights that microfinance requires innovative approaches beyond the traditional financial intermediary role. Dusuki argues that among others,

building human capacity through social intermediation and designing group-based lending programmes are proven to be among the effective tools to reduce transaction costs and lower exposure to numerous financial risks in relation to providing credit to the rural poor. This argument is supported by Obaidullah and Khan (2008) which assert that education and training are imperatives for an effective strategy for the growth and rejuvenation the Islamic microfinance sector. They mentioned since traditional banking is not suitable for collateral-free entrepreneurship-oriented microfinance, there is a need to create a microfinance experts by providing training to persons with diverse experiences such as, in banking, finance, investments, entrepreneurship development and community development.

Dhumale and Sapcanin (1999) argue that other types of Islamic lending-such as *qard al-hasan* (benevolent lending with a service fee) may emerge as more practitioners implement Islamic lending principles in microfinance institutions. Obaidullah and Khan (2008) confirm that Islamic microfinance has found *qard al-hasan* to be a “pure and effective” way of financing the poor.

Furthermore, participatory schemes such as *mudarabah* and *musharakah* have great potentials for microfinance purposes as these schemes can satisfy the risk sharing needs of the micro-entrepreneurs (Abdul Rahim, 2007). This argument is consistent with confirmation of Dhumale and Sapcanin (1999) which they asserted that Islamic banking, with its emphasis on risk sharing and, for certain products, collateral-free loans, is compatible with the needs of some micro entrepreneurs.

In empirical study, Adewale and Mustafa (2010) found that implies Islamic micro finance have positively influence on poverty alleviation. The study concluded that the appositeness of an Islamic microfinance model based on the *Maqasid Shari’ah* is expected as a viable alternative to alleviate poverty.

Methodology

The general objective of this study is to examine experts’ perception of Islamic microfinance with regard to *maqasid Shari’ah* through qualitative approach. The justifications for selecting qualitative approach are due to two main reasons. Firstly, qualitative approach is in line with nature of the research questions in this study. As stated

by Creswell (1998), qualitative enquiries are predominantly started by questions such “how” and “what” thus helping to describe what really are going on. Secondly, qualitative research methods can be further explained by its ability to generate comprehensive information to determine the perception of the experts about the Islamic microfinance with regard to *maqasid Shari’ah* (Weischedel et al., 2005).

A phenomenological approach to analyze data was adopted, which involves interpreting and reflecting on the data transcript so as to achieve a holistic understanding of the meaning of the participants’ experiences (Alexis and Vydellingum, 2007). According to Creswell (1998) in a phenomenological study, the researcher aims to develop a first person understanding and perspective on the phenomenon being studied. Moreover, Lester (1991) states phenomenological methods are particularly effective at bringing to the fore the experiences and perceptions of individuals from their own perspective, and therefore at challenging structural or normative assumption. The author was interested to conducting this study because of the area of Islamic microfinance studies on poverty alleviation with regard to *maslahah* (public interest) in general has been severely studied using quantitative approach or even if qualitative is only conceptual paper. Hence, this data analysis approach was chosen to allow the experts’ perception and also to express their opinion based on their own experiences in order to be able to confirm the findings of the quantitative approach.

Sampling

The study employed in interviews with four lecturers and three PhD students that affiliating for International Islamic University Malaysia (IIUM). A total of seven interviewees selected are based on their capacities that have experience and knowledge about Islamic microfinance and *maqasid Shari’ah*. The interviewees come from several countries such as Bangladesh, Indonesia, Malaysia, Nigeria and Sudan. Lecturers and students are targeted as highly-educated and knowledgeable with the ability to understand and respond to detailed question concerning Islamic microfinance.

Table 1 below provides details regarding the interviews and interviewees.

Interviewee	Function
Interviewee A	Student
Interviewee B	Student
Interviewee C	Lecturer
Interviewee D	Lecturer
Interviewee E	Lecturer
Interviewee F	Student
Interviewee G	Lecturer

Sources: (adapted from Mc Cluskey *et al.*, 2010)

Data Collection

The data collected from semi-structured interview to get information from respondent perception on Islamic microfinance in light of *maqasid Shari’ah*. This is to give flexibility to the researcher to explore Islamic microfinance issues in-depth. Semi-structured interviews also allow the interviewees the freedom to express their ideas on the issues being studied (Horton, Macve and Sruyven, 2004).

In order to facilitate data collection, face to face interviews recorded and the duration was around fifteen to thirty minutes. To guarantee privacy and confidentiality, the interviewees’ name has been changed.

Result and Discussion

In this section, the study would discuss the Islamic microfinance with regard to *maqasid Shari’ah* on experts’ perception. Before we exploring more about the driving forces and obstacles in Islamic microfinance to achieve *maqasid Shari’ah*, the interviews began by studying the degree of achieving Islamic microfinance on *maqasid Shari’ah*.

Islamic microfinance and *maqasid Shari’ah*

Based on the transcript of interview, it has emerged two themes namely equity and debt based issue that can be related to *maslahah* (public interest), and *qard al-assan* or *mudharabah* which can be related to establishing justice

Equity and debt-based issues

The discussions indicated that a majority of interviewees revealed that they are not sure if Islamic microfinance is fully in line with *maqasid Shar’iah* since most of current practice Islamic microfinance use *murabahah* as financing. Like Islamic bank, they prefer using *murabahah* rather than *mudharabah* financing because *murabahah* is relatively easy to manage such lower risk and shorter financing. The following views expressed by some Interviewees were typical:

I cannot say fully yes, because I can give you experience of our countries where we have Islamic microfinance. What we have in Bangladesh is debt based or kind *muajal* or *murabahah* basis or cost plus this is not actually *maqasid* Islamic finance. *maqasid* Islamic finance should be your investing of course under *Shari’ah* complaint way, it will be generating income and profit and loss will be distributed accordingly (Interviewee B)

Given loan and they are charges what is called administration charges. This is I’m not sure about how much they can achieve *maqasid Shari’ah* even that charges is questionable. They are just like Islamic banking which is *murabahah* dominates while real partnership with encourages risk share, risk loss profit share which is in line with the *maqasid Shari’ah* is neglected. (Interviewee C)

In the case of Indonesia for example, well, they use several top of contract but most of them definitely is still under *murabahah* [...]. *Murabahah*, I do not think it reflects justice for the customers because originally it is financing contract. I think the most suitable contract is basically *qardu hassan*, *musharakah* and *mudharabah* (Interviewee E)

I do not think so [...]. [...] our Islamic MFIs cannot wait for *mudharabah* because if you do *mudharabah* you lend money to him you go to do business you take time only then you come

to tell I made the profit. What we want is guarantee profit. That’s why most of Islamic MFIs also do *murabahah*. In their case, where they say cost plus and they can determine I have what they are going to get. Now question is this, if it is cost plus what is cost? (Interviewee G)

These statements are consistent to support a study conducted by Ahmed (2002) who found that dilution in the use of Islamic financial instruments like *murabahah*. Ahmad states giving away cash to the beneficiary instead of supplying goods or assets can result in diversion of funds to other uses causing moral hazard problem. Such practice was applied by three Islamic MFIs in Bangladesh such as Al-Fallah, Rescue and Noble (Ahmed, 2002).

Although Interviewee A did not mention explicitly but he looked agree that current practice Islamic microfinance is in line with *maqasid Shari’ah*. He argues that actually *murabahah* financing is allowed since Islamic MFIs are assumed as traders.

Basically if you go to *mudharabah* and *musharakah* are more towards to the long term financing purposes [...]. In Malaysia context, in five years you can pay back their money, that’s why most of the Islamic MF they prefer to have *murabahah* because short term repayment. [...] because you are seller you must have the profit but this profit cannot be excessive (Interviewee A)

Basically, *murabahah* financing is acceptable in Islam as it is expressed by Interviewee A. This view supports statement of Dhumale and Sapcanin (1999) who state Islamic MFIs should ideally buy the asset from the market and sell it to the beneficiary at a mark-up but this practice must be consistently done by Islamic MFIs to make sure them as trader.

The same goes to Interviewee F, he also had a certain thought that Islamic MF is quite fully in line with *maqasid Shari’ah* although he mentioned implicitly about that. This was based on his experience when he worked in one of Islamic MFIs in Indonesia namely in Tazkia microfinance. There was no *murabahah* contract applied in Tazkia as they only used *mudharabah* and *qard al-hassan* as financing. He noted:

I give you an example in “Tazkia” microfinance because I have ever worked there. That society is initially poor, now they increase to medium level which can fulfill their needs. [...] so, in my own opinion current practice Islamic microfinance like in Tazkia provide much benefit or *maslahah* to the people in order to alleviate poverty.

Interviewee D summed up the position of the interviewees:

We have to be care study that this done to access to do some kind of impact study. So at the moment, impact study has been inconsistent, meaning some findings, they say yes positive impact, and some other findings they say because too much *murabahah* although they are not different with conventional microfinance.

Statement of Interviewee D supports similar findings for study conducting by Adewalee and Mustafa (2010), Rahman (2010) and Nurkholis (2008). Adewalee and Mustafaa (2010) found that implies Islamic micro finance in Nigeria impacts positively on poverty alleviation. This finding confirmed by Rahman (2010) study that showed that Islamic micro-investment program appears to spur more ethical and economically desirable behaviour leading to poverty alleviation. While, by a few exceptions do conform to *Shariah* prescriptions, Nurkholis (2008) found that the minimum profit rate in *murabahah* contract at BMTs per year is far higher as compared to conventional banking.

Qard al- hasan and Mudharabah financing

In particular, financing size given by Islamic MFIs is a small financing. Islamic MFIs provide *qardul hasan* and *mudharabah* financing to the poorest of poor. Interviewee C mentioned about potential of *qard al-hasan* (benevolent loan).

So you can find let say Ukhuwat in Pakistan, they are doing *qardu hassan* more than which is really wonderful kind of practice. I would say this kind of thing would be in line with *maqasid shari'ah* (Interviewee C)

Interviewee E confirmed that such *qardu hassan* which its fund can be generated from external resources such as CSR (corporate social responsibility) funds. He noted:

[...] they also have *qard al-hasan*. The thing is this *qard al-hasan* used CSR funds. They also managed the funds, if the customers can pay back the loan, there is ok, so the bank can give to another customers. If particular customer can't pay back the money. Then they just carry go

like that because they are using CSR (corporate social responsibility) money. Basically their money is allocated purposely for the charity. (Interviewee E)

These observations above support similar findings for study conducting by Akhtar and Jaffri (2009) about Islamic microfinance and poverty alleviation in Pakistan. They found that critical financial analysis of Akhuwat indicates that it is providing its services for all living below the poverty line including the “extreme poor” and Interest free loans can be used as a powerful tool against poverty. Therefore, they recommended that integrating Islamic microfinance with NGOs, NPOs (non-profit organizations), *Zakah*, *Awqaf* will enhance the financial stability of Islamic microfinance institutions and will be helpful to achieving their aim of providing micro financial services to the poorest of the poor under one roof.

Based on his experience, Interviewee F opines that Islamic MF should give *qard al-hasan* first to the people. If they use it for productive activities and they are successful in their business, then Islamic MF would give *mudharabah* contract to them. He mentioned:

Preservation of *nasl*, from this side we can see continuing of life does not stop there. They have economy keeps growing because of funds given by Islamic microfinance. They give loan *qardhu Hassan* first. They did not give directly *mudharabah* contract to the client. We see from their abilities whether they can use the money in productive way or not. (Interviewee F)

While, interviewee D opines about *mudharabah* contract.

[...] we have visited Tazkia. In Tazkia is implementing this *mudharabah* and one of the researchers to go and do some survey and interview. They found in terms of *mudharabah* and *musharakah* financing, their default is very low. They are quite a lot of benefiting from this project [...] (Interviewee D)

This view appears to support the argument of Dhumale and Sapcanin (1999) who argue that Islamic banking, with its emphasis on risk sharing and, for certain products, collateral-free loans, is compatible with the needs of, some micro-entrepreneurs. And they state

because it promotes entrepreneurship, expanding Islamic banking to the poor could foster development under the right application

Most Interviewee agreed that *qard al-hasan* or *mudharabah* can be used as financing since these products are more closely to *maqasid Shari'ah*. These opinions are consistent to support finding of Obaidullah and Khan (2008) who argue that Islamic microfinance has found *qard al-hasan* to be a “pure and effective” way of financing the poor. They note that many Islamic microfinance programs are modeled solely using *qard al-hasan* - both as an effective fundraising and financing mechanism. They also opined that *mudharabah* is perceived to be more Islamic in spirit since this mode of financing displays the profit-sharing mechanism.

Motivation of Islamic microfinance to achieve *maqasid Shari'ah*

From the interview transcription, it has emerged two important statements namely poverty alleviation and opportunity for training.

Poverty Alleviation

Interviewee B and C opined that many people in the world are under poverty line. Therefore, this is opportunity of Islamic microfinance to help the increase in income of the poor. By Islamic spirit, Islamic microfinance should go beyond mere profitability goal.

They should be Islamic spirit. They should be goal equal distribution income. They should be goal to alleviate poverty so once you have all these principles. These are driving forces for Islamic MFIs to go for the product to achieve *maqasid Shari'ah* (Interviewee B)

So basically when you look at global environment [...]. [...] majority of Muslim is very poor [...]. They don't have even income major 1.2 dollar per-day. They cannot effort to buy good things. So when you look at *maqasid Shari'ah* it comes to remove all these of problem. (Interviewee C).

By this opportunity, Interviewee D, E and F asserted that Islamic microfinance should focus on community based as they may utilize funds from external resources such *zakat*, *awaqf* and CSR funds.

I think, driving forces should be Islamic, because microfinance is not purely commercial. Nowadays in new term coming in the market, we called social financing. Because it is kind social responsibility, collective responsibility for us trying to alleviate poverty. So, *maqasid Shari’ah* should be measured by objective of the microfinance. In other words, to what extent, to what degree they are be able to alleviate poverty (Interviewee D)

Well, the most fundamental is that understanding of the officer or the people who establish financial institution. You know, achieving of *maqasid Shari’ah* is not easy. It requires your sense of humanity [...]. [...] So, if the practice of the bankers that want to be moving the Islamic microfinance and don’t have this kind of sense. I don’t think they will achieve *maqasid Shari’ah* because they only think getting profit and I mean this is worldly vision rather than thereafter vision (Interviewee E)

The first motivation is poverty alleviation. It is main concern in Islamic microfinance, because the customers/clients indeed are different between microfinance and large bank. Our customers is lower class, we are going to lift their lives for the better. So, commercial based is not so concerned by Islamic microfinance. It is different with large bank that are usually profit-oriented (Interviewee F)

The view of these interviewees are consistent with previous arguments like Al Harran (1996) who argued that Islamic finance, if inserted in a new paradigm, could be a viable alternative to the socio – economic crisis lived by the Western paradigm.

Most Interviewee agreed that poverty alleviation is one of driving forces in Islamic microfinance to achieve *maqasid Shari’ah*. Because of Islamic approach to poverty alleviation is more inclusive than the conventional one. It provides for the basic conditions of sustainable and successful microfinance, blending wealth creation with empathy for the poorest of the poor. These opinions are consistent with Abdul Rahim (2010) argument who asserts that main objectives of microfinance schemes to alleviate poverty and to enable the poor to empower themselves are in line with the Islamic economic principles of justice.

Opportunity for educational programs

Other than giving the financing, Islamic microfinance should give the training to the client how to utilize the money in productive way. Islamic microfinance should give training to their staff to assure they work professionally. The following views expressed by some Interviewees were typical:

So the driving forces not only in to staff those operating but also borrowers or members Islamic MFIs or clients. They also need to have this kind of spirit otherwise whole driving forces will not be. So this kind interconnected you have some spirit, I have also some spirit. We see is driving you to give me money but my internal forces is not driving me to utilize the money in a way should be. So this driving forces should be both way from the client as well official of management perspectives (Interviewee B)

Therefore in order to achieve at *maqasid Shari'ah*, this is Islamic microfinance, it is tools that we can use to really solve the basic necessity. Because if some body has skills or something they are doing entrepreneur activity, they can do to generate income on daily basis. Those will definitely help her/him to solve the problem of basic need especially food and clothes (Interviewee C)

[...] Islam is basically encouraging us if we do work we do it professionally if we can. [...] for the one that is managing microfinance and also for the customer I mean both sides, not only from one side because moral hazard can be happened from both sides (Interviewee E)

Interviewee F opined that spiritual education for both client and staff is more important. Based on his experience, such program can educate them to be honest, trustworthy as well they are always remembering to Allah SWT. He noted:

The last motivation is education such as assemblies, recitation etc. It can educate client or officer to be honest and trustworthy. Because in our place, when there had been assemblies once a week, they shall give the charity even only RP100. It's been taught to give than to receive (Interviewee F)

With regard to poverty alleviation, All Interviewees believed that education is one of the tools to solve poverty alleviation. Their statements are consistent with reporting of Obaidullah and Khan (2008) who assert that education and training are imperatives for an effective strategy for the growth and rejuvenation the Islamic microfinance sector.

Islamic microfinance challenges

Based on the interview transcription, an important statement has emerged in to three themes namely government role, education challenges and funding issue.

Government role

As we know, the government has a positive role to play in building inclusive financial systems. There is a similar statement that was expressed by most Interviewees. They opined the government’s best role is to offer a policy environment that allows competitive and diverse financial service providers to grow. A good policy environment allows a range of financial service providers to compete to offer higher-quality and lower-cost services to large numbers of poor clients.

The second one is maybe in terms of legal issue to whom they want to deal. It is problem of interest of default, the way you want to go legal (Interviewee A)

[...] you need the government support to allow you to operate across the county [...] (Interviewee B)

The first thing is regulatory environment. If you want to do Islamic microfinance, now we are talking about bank to come and apply Islamic microfinance. But when you go to bank, they will tell you look, we have capital adequacy ratio look, we cannot go to such *mudharabah* or *musharakah*, we cannot even give if you look at our tick box, we cannot even qualify for poor people to be in our mainstream economic active and business active. So this is some challenges, regulatory and the perception too. So if this is challenges, this should be chance we have to look at the way to modify or to create it (Interviewee C)

One is legal framework [...].I think as we see for example in Indonesia come out new structure and new body something finance service authority which combine all those financial sector together whether BMT I think this kind of umbrella. Like in Sudan for example they made law all bank must give 12 percent profit to microfinance. So this kind of policy and law we need them. So we need political will, more support from government and from the people to open up. *Insyaa Allah* (Interviewee D)

Well, as I know, one of the challenges is from government itself. They do not fully support yet 100 percent Islamic microfinance especially in Indonesia even though the global community saw Islamic microfinance in Indonesia it has great potential. Several times Tazkia did presentation at oxford and in some countries about the Islamic microfinance in Indonesia. Because they are resistant to financial crisis (Interviewee F)

Another obstacle is we have government, regulation that would guide operational activity of this are not there in place. The activity is not there it become difficult for instance moving money from places like Saudi, Brunei while Islamic MFIs position in Malaysia. (Interviewee G)

Most interviewee agreed that government should also create the suitable regulatory framework for supporting and ensuring transparency and sound risk management practices on the part of the financial institutions. These views appear to support the recent finding of Wahyuni (2008) who found lack of a supervisory board and low demand for audited financial statements provide little incentive for BMT managers to get their financial statements audited by independent auditors.

Education challenges

Lack of adequate education and training among clients and organization personnel constitutes a major challenge for the Islamic microfinance. Lack of trained manpower is a major constraint for its growth, expansion and consolidation. With regard to this statement, Interviewee A expressed that by training, moral hazard problem can be minimized as the client learned how to manage the money for productive way instead of consumption way.

[...] maybe in terms of moral hazard problem, in terms of screening and monitoring because why as they give the cash money whether client is going to use the money for productive or consumption activities, so this one the challenges (Interviewee A)

Interviewee B confirmed that giving money to the borrower or poor who they are physically able but their skills are not able to manage the capital. He opined Islamic microfinance should give them training and human development.

Ya as I told that you know, if you want to give the money to the poor or borrowers. They are actually very poor, they are physically able but their mentally and their skill are not able. So you need to give them training, human development, human resources are used in area that needs to fulfill. So how is should go to other institution to train them or Islamic MFIs should give them those training. So if we say if the *maqasid Shari'ah* and Islamic MFIs should achieve then it also provide this training (Interviewee B)

Due to a lack of knowledge on Islamic rules, all clients do not have any idea about Islamic financing modes. Hence, Interviewee C opined that both training skill and spiritual training should be given to them.

I guess one of the ways is to improve the training for the people, training here is not only skills, account training but you need to give spiritual training, let them understand that they are accountable to Allah, accountable to way money owner, this other way. If you have to do seriously, you change mindset of the people perception, you improve their understanding [...] (Interviewee C)

Meanwhile, Interviewee D, F and G were more interested to train from staff sides or capacity building. They opined that education institutions like Islamic university should have special curriculum regarding Islamic MF.

[...] second thing is challenges of human resources [...] (Interviewee D)

Last challenge is coming from human resource side, we are really shortage of human especially in Tazkia. So we opened D3 program Islamic microfinance in our university. No one that wants to work in microfinance because he claimed the microfinance offer small salary. They prefer to work in a bank. (Interviewee F)

The second is manpower, the people have to be trained, manpower because of you know this staff. I am a teacher in university. It does not make me a good teacher in primary school because it requires different set of excuse. [...] because of in most of curriculum is also in the Islamic university even IIUM that have Islamic. [...] microfinance even in UIA the best we do is we write about it in thesis (Interviewee G)

All Interviewee agreed that there is an urgent need to develop resource centers and training material on Islamic microfinance in particular. These views support the argument of Obaidullah and Khan (2008) who assert that education and training are imperatives for an effective strategy for the growth and rejuvenation the Islamic microfinance sector. They also argue that there is a need to create a cadre of microfinance experts by imparting training to persons with diverse experiences such as, in banking, finance, investments, entrepreneurship development and community development.

Funding issue

Funding issue in Islamic microfinance is the most challenge. It is classic problem always faced by many small institutions like Islamic microfinance. A big fund is required to cover the poor living the poverty line. Because the lack of fund, many Islamic MFIs have failed to reach the poorest of the poor. Therefore, as Interviewee B said that Islamic MFIs are rather hard to expand its country-wide outreach effectively. So, international Islamic donors in particular should come forward to provide fund to Islamic MFIs.

Another points is coverage or outreach, conventional microfinance has been covered almost many places and Islamic microfinance has limitation. [...] so they have to mostly rely on domestic funds so these are funding issues. [...] if they can increase outreach they can save more people, so demand is there while supply is low, so there is deficit amount in the market, in supply-demand mechanism it is working in the same way. You have to give them sufficient amount of money and they can start their business, and we know initially to start any business we need money (Interviewee B)

Interviewee G confirmed that less funding can motivate Islamic MFIs to charge with higher profit rate so that many clients cannot pay back their financing with higher rate or we can call higher default. It obviously will affect the survival of Islamic microfinance itself.

First one is source of funding. If Islamic MF says a platform and the platform is less funding then you cannot ask them why they charge certain amount. If they don't call interest, they call charges but you cannot blame because of this source of funding. Maybe they also have to collect from somewhere (Interviewee G)

Interviewee B and G observations are consistent with argument of Ahmed (2002) who argues that the growth and sustainability of IMFIs largely depend on the availability of

external funds and their efficient operations. External funds are needed particularly during the initial stages of operation, when the savings of members are small. He opines institutions like Islamic Development Bank (IDB) can play an important role to expand the activities of Islamic MFIs. By providing or financing training courses to the employees of Islamic MFIs, IDB will be essentially increasing their efficiency and indirectly ensuring the return on its investment.

Conclusion

Based on the results of this study, most Interviewees generally perceive that Islamic microfinance institutions (MFIs) are not fully in line with *maqasid Shari'ah*. They opined Islamic MFIs provide big portion for *murabahah* as their financing. In other word, *murabahah* financing is more dominant rather than other instruments such as *mudharabah*, *musharakah* and *qard-al hasan*. The reason mentioned that *murabahah* is relatively easy to manage such lower risk and shorter financing. The issue is dilution in the use of *murabahah* financing. Islamic MFIs give away cash to the beneficiary instead of supplying goods or assets. They state that profit rate from such practice is questionable and it does not reflect justice or equal distribution income for the customer. However, some respondents also revealed that several Islamic MFIs also focused on *qard al-hasan* and *mudarabah* (equity based). They asserted that these two instruments have great potential to fulfill *maqasid Shari'ah*. Because Interest free loans (*qard al-hasan*) can be used as a powerful tool against poverty while *mudarabah* is perceived to be more Islamic in spirit since this mode of financing displays the profit-sharing mechanism. Some respondent state that Islamic microfinance can give *qard al-hasan* first to the people and if they use it for productive activities, then Islamic microfinance would give *mudarabah* contract to them.

This study noted that poverty alleviation and training program are one of Islamic microfinance motivation to achieve *maqasid Shari'ah*. Most interviewees asserted that the main objective of Islamic microfinance is to alleviate poverty. Therefore, they suggested that Islamic microfinance should focus on community based as they may utilize funds from external resources such *zakat*, *awaqf* and CSR funds. Other than that, they also stated that Islamic microfinance should give the training to the client how to utilize the money in

productive way and also it should give training to their staff to assure they work professionally.

Additionally, the study also found that government role, education program and funding issue are most obstacles of Islamic microfinance to achieve *maqasid Shari'ah*. All interviewees confirmed that a good policy environment allows a range of financial service providers to compete to offer higher-quality and lower-cost services to large numbers of poor clients. They also noted that there is an urgent need to develop resource centers and training material on Islamic microfinance in particular. Finally, funding issue in Islamic microfinance is the most challenge. Most interviewees asserted that a big fund in Islamic microfinance is required to cover the poor living the poverty line. Therefore, they suggested that external funds like *zakah* and *aqawf* intuitions are really needed particularly during the initial stages of operation, when the savings of members are small

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سجل المؤتمر المؤتمر الدولي

دور الجامعات الأفروآسيوية في صياغة الحضارة الإنسانية

٢٢ - ٢٣ يوليو ٢٠١٨ الموافق ٩-١٠ ذو القعدة ١٤٣٩

جامعة دار السلام كوتنور - إندونيسيا

