

The Prospects of Islamic Microfinance: Maqasid Shariah Perspective

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Abstract. *Islamic microfinance is one of the instruments that has been scientifically demonstrated to help the poor and needy. The instrument aims to help the underprivileged by giving them access to financing based on Shariah principles for lucrative activities, primarily small and micro-businesses. Notwithstanding that the Islamic microfinance providers claim that they comply with the Islamic rulings (hukm), little attention has been paid to the extent to which the practice addresses the maqasid (objectives) shariah. Such claim of Shariah-compliant practice will be rendered meaningless if maqasid shariah are not realised. Hence, the present paper aims to explore the significance and prospects of the Islamic microfinance practice from the standpoint of maqasid shariah. The library research, inductive, deductive and analytical techniques are employed consistently. The findings reveal that Islamic microfinance has a significant role in realizing the major maqasid shariah, namely: safeguarding the religion, human life, intellect wealth and progeny. These prospects convey the perception that much effort needs to be done to encourage the offering of Islamic microfinancial products at the Islamic finance sectors at large. Future studies may propose maqasid shariah guidelines for the better practice of Islamic microfinance.*

Keywords: *Islamic Microfinance, Maqasid Shariah, Poor Population, Prospects, Significance.*

Abstrak. *Keuangan mikro Islam adalah salah satu instrumen yang telah terbukti secara ilmiah dapat membantu orang miskin dan membutuhkan. Instrumen tersebut bertujuan untuk membantu masyarakat kurang mampu dengan memberikan mereka akses pembiayaan berdasarkan prinsip Syariah untuk kegiatan yang menguntungkan, terutama usaha kecil dan mikro. Terlepas dari kenyataan bahwa penyedia keuangan mikro Islam mengklaim bahwa mereka mematuhi hukum Islam (Hukm), bagaimanapun masih sedikit perhatian telah diberikan sejauh mana praktik tersebut sesuai dengan Maqasid syariah. Klaim praktik syariah seperti itu akan menjadi tidak berarti jika Maqasid syariah tidak diwujudkan. Oleh karena itu, kajian ini bertujuan untuk mengeksplorasi signifikansi dan prospek praktik keuangan mikro Islam dari sudut pandang Maqasid syariah. Penelitian perpustakaan, teknik induktif, deduktif dan analitis digunakan secara konsisten. Kajian ini mengungkapkan bahwa keuangan mikro Islam memiliki peran yang signifikan dalam mewujudkan maqasid syariah utama, yaitu: menjaga agama, jiwa manusia, kekayaan akal dan keturunan. Kajian ini menyampaikan persepsi bahwa masih banyak upaya yang perlu dilakukan untuk mendorong penawaran produk keuangan mikro syariah di sektor keuangan syariah secara luas. Studi*

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selanjutnya dapat mengusulkan pedoman Maqasid syariah untuk praktik keuangan mikro Islam yang lebih baik.

Kata Kunci: *Pegadaian Syariah, Produk Pegadaian, Rahn, Ketahanan Masyarakat, Covid-19.*

Introduction

In recent years, Muslim scholars have come to the realisation that the scholarly study of syariah is incomplete if focused solely on the legalistic and mechanistic aspects of syariah. Rather, the discussion should go further to cover the values, essence and the very objectives behind the revealed syariah; known as maqasid syariah. In other words, claiming any practice to be syariah-compliant without first considering the maqasid or objective would render it meaningless. Ibn al-Qayyim provides a brilliant explanation about the substantial concept of syariah:

Anything that departs from justice to injustice, from mercy to its opposite, from well-being to misery, and from wisdom to frivolous; has nothing to do with the syariah, even if it is claimed to be very consistent to some interpretation of scholar (Ibn al-Qayyim, 2002).

The foregoing remark clearly reveals that syariah is based on the realisation of human well-being. Chapra (2008) adds that maqasid syariah also aims to uphold justice, human rights and to fulfil all human social, physical, intellectual and technological needs, both in the present as well as for future generations. Consequently, the concept of maqasid syariah has recently become the subject of considerable attention from Islamic researchers, industrialists and policymakers looking to improve the performance of the economy, healthcare, environment and politics.

Despite this appealing theoretical dimension, the Muslim world's reality is far from ideal. Many Muslim countries have been classified as 'near multidimensional poverty' or 'in extreme multidimensional poverty,' according to a recent UN Human Development Report (UNDP, 2016). These countries have also received low scores in many human development indicators, including life expectancy, education and healthcare, among others.

This raises the question: to what extent is the concept of maqasid shariah actually workable?

Islamic microfinance appears to embody the maqasid shariah principles in practise. It aims to improve the well-being of rural, underprivileged, and destitute people by encouraging them to engage in profitable enterprises through small-scale, shariah-compliant funding. Microfinancing systems, unlike mainstream financial services, offer borrowers more manageable financial plans that recognise the problems that the impoverished sometimes have in managing debt.

There are similarities between maqasid shariah and microfinance, with both aiming to promote human maslahah (well-being). In fact, it is argued that both segments are interrelated in such a way that Islamic microfinancing is not truly shariah-compliance until it realises the maqasid shariah. This raises further questions; do existing shariah-compliant financing systems actually reflect the maqasid shariah? The present study aims to explore the issues and challenges of the Islamic microfinance practice from the perspective of maqasid shariah. It begins with the introduction, followed by the survey on the literature relating to Islamic microfinance and maqasid Syariah. The following section discusses the methodology used to realise the outlined research aim. This is followed by the analysis on the issues and challenges of Islamic microfinance application from the perspective of maqasid shariah. Some concluding remarks are presented at the end of the study's discussion.

Literature Review

1. Islamic Finance Industry and the Social Expectations

The rapid growth of Islamic finance has been widely considered to be phenomenal, particularly in Muslim-majority countries. Among the purposes of Islamic finance that Muslim scholars often emphasise are (Mohammad and Shahwan, 2013; Lone and Ahmad, 2017): (i) to promulgate Islamic moral norms in commercial activities; (ii) to uphold universal justice and

brotherhood; (iii) to phase out income disparity; and (iv) to promote social welfare (Chapra, 1979b; Lone and Ahmad, 2017). These purposes reflect the reality of many Muslim countries which are associated with backwardness and poverty (Pryor, 2003; Pudelko and Bhargava, 2005). To borrow the opinion of Professor Ahmad el-Najjar, Islamic banks should provide financing to rural and impoverished populations not served by existing institutions (Mayer, 1985). This idea articulated by the pioneer of the first Islamic bank (Mit Ghamr Savings Bank) clearly indicates that the original goal of Islamic finance is to uphold financial inclusion and the social objectives.

Nonetheless, despite the remarkable development in Islamic finance, the current practices – mostly dominated by banking, *sukuk* and *takaful* industries – appear to be too comfortable with profit maximisation and, as such, disappoint social expectations. Financial services favour urban, middle-income and wealthy clients while ignoring rural and impoverished populations (Hayat and Malik, 2014; Naceur, Barajas and Massara, 2015). These impressions are consistent with other studies that suggest that the current practices of Islamic finance have begun to deviate from the original objectives and Islamic finance has started to lose its identity (Djebbar, 2016; Zulkifli Hasan, 2016). This is because too much attention is paid to the form and mechanistic aspects of the *shari'ah*, whereas its substance and values are overlooked (Asutay and Harningtyas, 2015). Formalism leads to a narrow understanding and ignores other more important values related to the *shari'ah*. Therefore, the realisation of *maqasid al-shari'ah* is essential to counterbalance the disparity between profit-making and social objectives.

2. The Significance of Islamic Microfinance

The creation of Grameen Bank in Bangladesh by Prof. Muhammad Yunus in 1983 is often associated with the concept of microfinance. Poverty reduction and rural population empowerment have long been high on the microfinance agenda. The microfinance system is performed by providing small-scale business funding to their customers, allowing them to become

self-sufficient enough to pursue entrepreneurship. Their microbusiness activities are aided by the provision of entrepreneurship courses to develop the knowledge and skills of the customers. As a result, various empirical investigations have indicated that Grameen Bank's project has had a positive contribution to the fight against poverty (Wahid, 1994; Khandker, 1996; Siwar and Talib, 2001; Bhuiyan *et al.*, 2017). This excellent achievement had led Prof. Yunus and the Grameen Bank to be awarded the Nobel Peace Prize in 2006. However, Grameen Bank may be deemed as a non-Shariah compliant Microfinance institution as it imposes interests on the loan approved. The survey done by Karim, Tarazi, and Reille (2008) argues that the majority of Muslims in developing countries are hesitant to participate in the interest-based loan since it violates shariah laws and beliefs. On this awareness, the application of Islamic microfinance must be strengthened to cater for the needs of the impoverished Muslim population.

Through an analysis of relevant literature, it is found that Islamic microfinance was practised earlier. Despite the fact that the Grameen bank (conventional microfinance) is among the popular institutions³, It should be noted that the concept of Islamic microfinance has been in existence since 1963 when Mitt Ghamr Savings Bank (MGSB) was established. It was established in reaction to the poverty of Muslim communities in rural areas, particularly those in Egypt. Although MGSB was often claimed as the first commercial Islamic bank, the concept, application, and substance resemble the Microfinance institution. This is because MGSB performs a similar *modus operandi* to that of microfinance (Mayer, 1985; Sultan, 2012):

1. Granting small-scale financing (micro) to customers
2. Target customers are the poor and those residing in rural areas.
3. Customers have to be helped to become successful micro-entrepreneurs by offering entrepreneurship and management support programs

³ Many scholars believe that the Grameen Bank established in 1983 is the first Microfinance institution in the world; a few are Desai (2014); George (2014) and Westover (2010).

4. Use of the social collateral approach as the substitute for the asset collateral is often practised in the commercial financial system.

Fundamentally, Islamic microfinance is a financial system that uses and develops Shariah-compliant contracts in its product and service offerings. Murabahah, qard al-hasan and musharakah are among the major contracts. It is noteworthy that microfinance differs from the commercial financial sectors (banking, investment, takaful and Sukuk) in two main respects namely operational objective and target clients. Islamic Microfinance focuses on the poor population and rural population as the target clients, and it sets poverty eradication as its main objective. (Thaidi, Rahman and Rahman, 2019) and Ahmed (2002) conclude that Islamic Microfinance is different from the conventional counterpart from some angles:

Table 1. Comparison between Islamic Microfinance and Conventional Financing

	Islamic Microfinance	Conventional Microfinance
Financial resource	External resource, customers' savings, zakat, waqf etc.	External resource, customers' savings
Financing instrument	Various instruments of Islamic finance, e.g. murabahah, qard al-hasan, musharakah.	Interest-based loan
Target population	Moderate and extreme poor	Moderate poor only
Target group	Family and women	Women only

Debt load	Client and spouse	Client only
Overcoming financial default	Social collateral and spouse, Islamic ethics	Peer-pressure only
Modus operandi	Stressing on the aspects of religious value and Shariah compliance	Secular (not comply with shariah)

Islamic Microfinance is a fundamental segment in the Islamic financial system at large, although it is seldom discussed thoroughly in the Islamic financial academia. It complements the existing Islamic financial system in a way that it acts as a mechanism to realise the financial inclusion objective, which may not be the interest of the commercial Islamic financial sectors. This is because the mainstream commercial Islamic financial approach is more exclusive, where the products and services focus more on maximising the profits by targeting the medium and upper classes of society. Through Islamic microfinance, which is more socially oriented, the Islamic financial system is seen to be more inclusive by covering the lower-class population. This automatically contributes towards returning the Islamic financial practice back to its original position, which is to give a greater social impact to the society (Chapra 1979; Lone 2016; Mohammad and Shahwan 2013).

3. Conceptualising Maqasid Shariah

Maqasid is a plural of maqsid which has several meanings, including objectives, purposes, intents, aspirations, rationales or designs (Wehr, 1976; Baalbaki, 1995). As far as the present study is concerned, the scholars tend to limit the term *maqasid* to mean objectives, purposes or intentions.

There is no specific technical meaning of maqasid shariah. Even the Father of maqasid, namely al-Shatibi, did not define the term precisely. This may be because the term has a straightforward meaning to facilitate its

understanding among the public some 600 years ago. However, with the development of shariah studies, contemporary scholars believe that there is a need to provide a conceptual definition. For instance, as al-Raysuni (1995) defines maqasid shariah as "the purposes which the shariah law was established to fulfil for the maslahah of humankind". Laldin & Furqani (2012) expands the definition by correlating the shariah practicality with the human being's ever-changing circumstances. He defines maqasid as "the goals and objectives of Islam as a system of life that constitutes standards and criteria, values and guidance, based on revelation to be applied in practical life to solve human problems and guide the direction of human life".

The understanding of the maqasid shariah becomes clearer by studying the Quranic style. In many places and contexts of the Quran, it is an expression of the goals, facility, rationale and benefits of its laws and injunctions. For instance, the Quran highlights that Islam aims to address all creatures - including the believers and the disbelievers - with mercy and compassion.

"O Muhammad, We **have** not sent you but as a source of compassion for all the creatures." (al-Anbiya' 21: 107)

In another instance, it highlights that Islam was revealed to promote facility and ease.

"Allah intends every facility for you and He does not want to put you to difficulties." (al-Baqarah 2: 185)

It could be said that the essence of the Quran is values and objectives-oriented rather than legalistic formulation. Accordingly, the notion of maqasid shariah deserves attention, particularly in shariah-related studies. In fact, the realisation and operationalisation of the maqasid are the best representations of the shariah practise in the contemporary context.

4. The Major Maqasid Shariah

Al-Ghazzali, through his book *al-Mustasfa* is believed to be the first who enumerated the elements of most basic human needs (*daruriyyat*) into five, namely: religion (*din*), human life (*nafs*), intellect (*'aql*), wealth (*mal*) and progeny (*nasl*). It has been believed that safeguarding these elements are the major *maqasid shariah* (Chapra, 2008; Rauf, 2015). The Muslim scholars unanimously agreed that Islam comes to safeguard these elements.

1. Safeguarding the Religion (*hifz al-din*)

Toynbee concluded that, according to his extensive study of history, the good moral conduct and social well-being appear to be difficult to establish without the moral sanction provided by religion. The religion of Islam covers all aspects of moral and social conduct as it is a complete system for humankind. This is stressed by the Quran:

"This day I (Allah) have perfected for you your religion and completed My favour upon you and approved for you Islam as religion." (*al-Ma'idah* 5: 3)

Apart from the provision of a complete system of life, Allah also commands human to passionately follow the system:

"This is My straight path (Islam), so follow it! And do not follow other ways." (*al-An'am* 6: 153)

The command to follow the religion means that it must be protected and safeguarded. Given the importance of religion, recently, the United Nations High Commissioner for Human Rights (UNHCR) has recognised religion as a human right and urged constitutions and domestic legislation to guarantee the freedom of religion for all without distinction (UNHR, 2010).

2. Safeguarding Human life (*hifz al-nafs*)

Islam safeguards human life by regarding it with honour and dignity. This has been stressed by the Quran:

"And indeed, We have certainly honoured the children of Adam, and carried them on land and sea, and provided them with good things, and greatly favoured them over many of those We created." (al-Isra` 17:70)

Human life is sacred in Islam. Elsewhere in the Quran, Islam promotes life protection and condemns those who commit homicide as killing all humanity:

"Whoever kills an innocent soul, it is like he has killed the whole humanity. Similarly, if one saved a life, it would be like he has saved the entire humanity." (al-Ma'idah 5: 32)

3. **Safeguarding the Intellect (*hifz al-'aql*)**

Islam regards the intellect as a fundamental component of human development to attain virtue in this world and the hereafter. Islam safeguards the intellect by encouraging the utilisation of intellectual abilities via lawful means extensively. Many Quranic verses urge human beings to use their intellectual capacity through learning (al-'Ankabut 29: 35), thinking, discovering (Ghafir 40:67), contemplating (al-Baqarah 2: 164) and so forth. In fact, the first revealed verse in the Quran promotes knowledge attainment through the command to read (al-'Alaq 96: 1). Therefore, to practice the shariah properly is to prevent anything that could harm the intellectual ability such as consuming drugs and intoxication. In fact, the shariah imposes serious punishment for consuming intoxicants.

4. **Safeguarding Wealth (*hifz al-mal*)**

Islam encourages human beings to earn wealth in order to satisfy their needs and make life as comfortable as possible. This can be seen through the Hadith:

"The Man's work with his own effort and every justified business are the best earnings." (Al-Tabarani, 1995)

According to al-Yubi, the great number of Quranic and Hadith texts that promote philanthropic activities indicate that Islam encourages wealth

earning. This is because the greater the earnings, the better the ability for these activities. Quran says:

"The example of those who spend their wealth in the way of Allah (giving charity) is as the likeness of a grain that produces seven spikes; in each spike has a hundred grains. And Allah multiplies for whom He wills". (al-Baqarah 2: 261)

In fact, Muslims believe that the more charity is given, the more Allah adds to the giver. Quran says:

"Whatever you spend for charity, He (Allah) will replace it". (Saba' 34: 39)

The authentic Hadith also affirms that:

"There is no day on which people wake up, but two angels come down and one of them says: O Allah, give more to the one who gives charity. And the other says: O Allah, send destruction upon the one who withholds". (Muslim, 2007)

The safeguarding of wealth is not seen solely by the encouragement of wealth earning, but also through the provision of rules to prevent any harmful violation of the wealth. In this regard, Islam prohibits theft, bribery, monopoly and exploitation (Kamali, 2017).

5. **Safeguarding Progeny (*hifz al-nasl*)**

Islam safeguards and protects the continuation of human society and well-being as it is an important tool for the survival of civilisation. In this regard, the family institution is fundamental to safeguard the progeny. Therefore, Islam promotes the establishment of the family through promoting marriage. The Prophet says:

"O young people! Whoever is able to marry, should marry as it helps him lower his gaze and guide his modesty." (Al-Bukhari, 1997)

Having a large number of offsprings is considered a blessing in the perspective of Islamic teaching. This has been emphasised by the Prophet, who said:

"Marry a loving and fertile woman so I (Prophet Muhammad) will boast of the number of my nation (Ummah)." (Al-Albani, 1998)

Apart from that, safeguarding progeny also means preventing any harm that could destroy the posterity and the marriage institution. Therefore, the shariah discourages living in celibacy and imposes severe punishment for committing adultery and abortion.

Method

The present study is qualitative in nature that adopts library research for most of the study's discussion. In this regard, the principal references consist of Quran and Hadith literature and prominent shariah classical scholarly works as well as contemporary literature. Journal articles, seminar papers and reports relating to microfinance and maqasid shariah are among the primary referred materials. The inductive approach is also employed to generate meanings and conclusions by exploring the concepts, trends, prospects and challenges relating to the Islamic microfinance current practice. The deductive approach is adopted to survey the ideas and notions relating to the microfinance and maqasid in order to reach a specific conclusion. To improve the inductive and deductive approaches, it is advisable to adopt the analytical approach, aiming to highlight the scholarly opinions, investigate their evidence, compare and critically analyse their arguments to reach the most credible view (Zahraa, 2003).

Results and Discussion

Empirical studies show that the application of Islamic microfinance has a significant relationship with improving the poor's life and encouraging the socioeconomic development at large. When looking into the impact of microfinance, many researches tend to focus on how far the application has

alleviated the poverty. Another way to view the impact of Islamic microfinance is by looking into the extent to which it fulfils the basic *maqasid* namely, safeguarding of the religion, human life, wealth, the intellect and progeny.

Empirical evidence suggests that Islamic microfinance encourages religious practice and awareness. A great deal of studies report that most clients feel motivated in performing religious commitments, including praying at the mosque, attending the religious classes and avoiding *riba*. Some encourage their friends and relatives to practice Islamic teachings (Mizanur Rahman and Ahmad, 2010; Alam, Hassan and Said, 2015). Some successful clients agreed that participating in Islamic microfinance enabled them to perform *'umrah* (encouraged pilgrimage) and *haji* in Mecca. Such motivation and awareness could have resulted from the Islamic MFIs' initiative of providing special religious courses. For instance, Rahman found that RDS of Islami Bank Bangladesh Limited (IBBL) organises a weekly meeting for among other reasons, to provide consultation about moral and ethical issues based on Quran and Hadith. The institution also monitors whether the client practices the religious rituals (Obaidullah, 2008; Mizanur Rahman and Ahmad, 2010). Religious practice and awareness are important to improve ethical values such as trustworthiness and sincerity. This subsequently encourages the performance of the financial obligations of the client.

Apart from the religious benefits, Islamic microfinance has a positive influence relating to the wealth of the client. Several empirical investigations affirm that Islamic microfinance has significantly helped the client to increase their level of income (Rokhman, 2013; Ahmed and Ammar, 2015). Most clients also agreed that Islamic microfinance opens more employment opportunities (Noipom, 2014) and enables them to expand their assets and property such as a house, business premise and machinery. (Nasution (2014) suggests that these achievements are due to the guidance and consultation provided by Islamic MFIs for its clients on how to manage their wealth based on Islamic principles. Constantly improving the wealth element is crucial to help the

impoverished population to escape from poverty's clutch (Adnan and Ajja, 2015; Uddin and Barai, 2016).

With regard to the element of human life and intellect, Islamic microfinance is a reliable approach to maintaining the needs related to both elements. Through the enhancement of income and purchasing power, the clients improved their consumption needs, including food security, health care, shelter and clothing (Alam, Hassan and Said, 2015; Mahmood, Abbas and Fatima, 2016). For instance, Alam et. al. (2015) affirm that all of their respondents' healthcare improved significantly after participating in Islamic microfinance programs. In terms of intellectual attainment, it is asserted that Islamic microfinance has a positive influence on the education level of the clients (Gumel, MD Saad and Hj Kassim, 2014; Rokhman, 2014). This may be due to the financial ability of the client which leads to more educational opportunities. An example of this is the investigation carried out by Ahmed in which more than 96% of respondents from three Islamic MFIs in Bangladesh opined that Islamic microfinance has helped them increase their education, especially in the knowledge of Islam (Ahmed, 2002).

Islamic microfinance is seen to be reliable in maintaining the progeny element through strengthening the family institution. Notwithstanding the conventional microfinance approach of preferring the female client, Islamic microfinance offers its financial services across gender by focusing more on family empowerment (Obaidullah and Khan, 2008; Abdullah, Amin and Ab Rahman, 2017). This is exemplified in several studies indicating that some clients have positively improved their relationship with their spouse and other family members (Bhuiyan *et al.*, 2011; Riwayatanti, 2013). Alam et al. (2015) find that the improvement of financial ability after subscribing Islamic microfinance subsequently improves the image and impression of the clients' family.

Islamic microfinance has an important impact on aiding the economic development in Muslim countries in general and in fulfilling the basic

maslahah of the poor in particular. Despite such encouraging achievement, there remains issues and challenges which deserve serious attention.

Conclusion

Realising maqasid shariah is fundamental in the practice of Islamic finance. In other words, performing Shariah-compliant is not complete by focusing solely on the legalistic and mechanistic elements of ahkam shar'iyah (the rulings of Islamic law). Rather, the performance should go further to achieve the values and higher intents outlined by the shariah. It has been argued that the current practice of Islamic finance appears to be too comfortable with profit maximisation and, as such, disappoint social *maslahah* and expectations. This study was carried out to research the prospects of Islamic microfinance from the viewpoint of maqasid shariah. Throughout the research, there are several notable prospects and potentials that deserve attention; among others, Islamic microfinance encourages religious practice and awareness, it improves the income of the poor, equips the poor with the entrepreneurship knowledge and skills, improves the food security and healthcare and contributes to the family empowerment. It is hoped that the findings would give beneficial insights for academics, practitioners and future studies.

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