

Islamic Micro finance as Spiritual financing: A Theoretical aspect

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ABSTRACT

When we talk of for human development on survival grounds, poverty halls an utmost position which integrally needs to be addressed to its best possible extent. In order to uplift poor, Economic welfare stimulation by financial support is of supreme importance. Among various ways to support needy which are categorized as formerly or informal, conventional institutions particularly micro finance institutions are meant to serve poor by way of financing their tiny business either groups or at individual level that by and large operates as commercial way of financing. To be specific this way of financing continuously backed by extra burden in the shape of interest which borrower has to bear. On contrary when we talk of spirituality we are basically talking of religion. For author spirituality means religion. Here unburden financing plays key role for the same. Although Conventional microfinance is recognized as hope for the poor with marginal burden in most of cases but not for extremely poor. To finance them is not among purpose of any financial institutions even in conventional micro fiancé institutions, to address those lies under the Doman of religious umbrella and Islam provides solution for same. As Islam provides the comprehensive code of life and to deal with poverty reduction is as one of the fundamentals of faith. Today Islamic micro finance which is in operation offers trade based financing as well as charity based financing Islamic Microfinance Institutions (IMFIs) have been working in a very limited form that too mostly in Asian countries, as a subset it gives financial support to poor and extremely poor, in the shape of grants or provide Qard Hasan or trade based in promoting trade activities in terms of entrepreneurship development among Muslim as well as Non-Muslims.

Key words: *charity, extremely poor, institutions, Micro finance, spiritual,*

LITERATURE REVIEW

Today, as on date Over 300 Islamic microfinance Institutions operate in world both in Islamic majority and minority nations in more than 32 countries with a market size as estimated over USD 1 billion Dollar. It is observed among Islamic micro finance operating countries as per (CGAP) Indonesia, Bangladesh, Pakistan and Afghanistan are the leading stakeholders of industry that address share of about 80% share of current Global Islamic microfinance industry that amounts to Over 2 million active financing clients whether poor or extremely poor irrespective of faith.

Dewan A. H. Alamgir. 2008 etc.. In a comprehensive examination they offer an inclusive analysis of RDS, and contrast between RDS(rural development scheme) and microfinance services offered by MFIs, and performance of microfinance institutions of Bangladesh. When compare RDS with ASA and BRAC they

realize that RDS has comparable financial performance with half the interest rate charged by ASA (report) and BRAC (Building Resources Across Communities) and (Rashida Abdul Rahman Fasil Dean 2013) in their study of challenges and solutions they sums up as Good Islamic MFI programmes are branded by small, usually simple short-term soft loans with hasty and precise investment appraisals. Hans (et al. 2008): Among various studies previously his study is more systematic study in Indonesian perspective in way where financial industry evolved since 1990 with coming of several elements containing formal as well as semi-formal Islamic micro finance with similar in other nation as Syeda (et al. 2012): while investigating feasibility of Islamic models in Pakistan she came with outcomes as there is excessive need of sharia's compliance in Pakistan at micro level and Islamic micro finance outfits to Pakistanis not because of being Muslim professed country rather its itself formation of economic system grounded on justices She further add-on delivery of services is not in accordance to need of people and a wide gap to be filled for betterment. Takaful and Qarz-e-Hasa are methods of financial services delivered by Islamic micro financial institutes through which they operate and familiarity of such services needs mass promotion. Ngan Bui (2013): His paper stresses on investment decisions made by Microfinance debtors in Jordan. He invent two categories of borrowers do not differ in investments regarding their microenterprises plan but its perceived Islamic borrowers are less prospective to invest in home enhancement projects and purchase consumer durables mostly they restrict themselves in these areas while as traditional debtors explore range of investment plans. Study finds venture is fruitful at in cooperation ends only, Ajagbe T. S(et al. 2013): While guessing the suitability of Islamic methods in Nigeria based on primary data he finds good no. of Muslims as well as Non-Muslims wishes to have interest free mechanism. Therefore demand for Islamic financial system is at upper most opportunity before administration. Ali Saleh (et al. 2015): while analyzing eminence of Islamic micro finance in Yemen they completes that there is a promising demand for Islamic microfinance along challenges facing its growth and development.

Bridget Kustin (2015): The author piloted Field research around four years that stretches from 2010 to 2014 in urban and rural areas of Pakistan and in Bangladesh the result of research shows that Islamic microfinance is dispersed industry along mixture of small scale experiments and established institutions. While as IDB (Islamic development bank more likely centered positioned institution acting as hub to the industry that includes new products, services, legal environment etc. Permata (al el. 2016) :While investigating formal and informal Islamic micro credit in Indonesia the researcher finds Islamic micro finance is religious in nature . Competitors as considering poor is biggest issue. From this research it's observed BMT offers products to poor who have less than \$2 income per day and formally its difficult hence informal institutions wants to solve these issues. .Uniqueness of Islamic microfinance financing product to the poor people which categorize to three phases: pre financing, financing and post financing phase based on the experience of BMT. The findings of study acts reference for strategy makers and hassles that BMT prerequisites an extra work to identify financing scheme that would produce positive effect on customer and must conduct some treatment to their funding by matching with customer demand.

II.HISTORICAL BACK GROUND

In order to extent assistance to a greater number of people, new models of Islamic microfinance are being built and in practice, various model developed by the IDB, Muslim Aid and a nonprofit contemplate reservoir in the

United States and in Asia, the Institute of Halal Investing (IHI). In the early days of Islamic microfinance, the loans/advances were usually given with no cost (qard hasan) and any costs deserved were covered with other charities as sadaqa specific and general. Clemency with zakat. While using qard hasan is relaxed method to ensure Shari'ah compliance but it's not a sustainable model. Even when repayment rates are between 96% to 99% equivalent to the most successful microfinance institutions (MFIs). It's seen in many cases the reliance on voluntary Contributions makes the continuing operation of the organizations inexact. As one of the early adopters of microfinance, Bangladesh was also beginners to introduce Islamic microfinance. A past study of three Islamic MFIs in Bangladesh that existed for between 10 and 13 years, show poor results. The three MFIs disbursed around \$530,000 in financing in 1999 (compared to \$376 million spent by the Grameen Bank in the same year) on murabaha in most cases. Another early experiment in Islamic microfinance occurred in Hodeidah in Yemen starting in 1997 that also used similar products starting in 1997. Many establishments recently entering Islamic microfinance syndicate a Shari'ah-based microfinance program with zakat to extremely poor to be able to use microfinance. Some microfinance providers use an individual methodology while others use the group methodology that has been successful in conventional microfinance like the Grameen Bank.

<i>Nature of client</i>	<i>Basis</i>	<i>Client status</i>	<i>Reward</i>	<i>Products</i>
<i>Trade base financing</i>	<i>Material base</i>	<i>Upcoming entrepreneur</i>	<i>In this world</i>	<i>Murabaha, musharakha,</i>
<i>For extremely poor</i>	<i>Spiritual base</i>	<i>Ability to work</i>	<i>Here after</i>	<i>Qarze-hassan</i>
<i>Destitute class</i>	<i>Spiritual base</i>	<i>Unable to work</i>	<i>Here after</i>	<i>Zakat, sudkat and general kharat</i>

III. ISLAMIC MICRO FINANCE PRODUCTS

Islamic mode of financing contains elements of material base as well as spiritual base. Here well proposed approach for poverty alleviation and development in Islam involves several not-for-profit or spiritual based well defined products to needy (Mustahiq) such as, sadaqa, zakah, awqaf and qard-hasan same is meant for extremely poor and for just poor trade based model are utilized. Same could be depicted from above table.

IV. MECHANISM TO OPERATE ISLAMIC MICRO FINANCE PRODUCTS

(A) Trade based products :

The Musharaka (joint venture) product works in a similar way to the Mudaraba (trustee profit sharing) except that the incentive difference, it is eased because the client is obligatory to make a personal financial investment in her business. The group methodology remains important because the profit-sharing bargain creates the same principal-agent problem as in Mudaraba. In addition to these products (Blake Goud 2016) Islamic microfinance institutions need to advance savings accounts in order to provide clients/people to save money. As per U.N.

Capital Development Fund, their estimate shows that there is potential for 7 million borrowers and 19 million savers, so the availability of micro savings products may be more important than micro financing

V.MECHANISMS

In a group Mudaraba an agreed ration the microfinance institution provides the financing and the client makes profit-sharing payments each week. The losses are tolerated by the MFI and the MFI has the option of terminating the agreement if the losses are intolerable. When the client makes profit-sharing payments, she may also purchase shares of the MFI's equity stake in her business and if same works in consistency the client takes full ownership of the business and the microfinance institution earns the principal plus weekly shares of profits or losses. The parallel problems in *Mudaraba* is that the client has an incentive to underreport the profits realized in mandate to reduce the amount she shares with the microfinance institution and the MFI does not have the ability to fully monitor the client. The principal-agent problem in conventional microfinance was to use a group lending methodology in order to create peer pressure which acts as a form of collateral and reduces the incentive for the microfinance client to borrow money they have no intention of repaying. In effect, the group members act on behalf of the microfinance institution to increase the other group members' incentive to repay. In a similar way, a group financing methodology can be used to fix the principal-agent problem in the Shari'ah-based microfinance system. Each member monitors the other members' businesses and the profit reporting and profit-sharing payments are made available to the other. In similar way musharaka way of financing acts as partnership where its works purely on profit and loss basis, risk and reward are shared by all group members. Members have to present their microenterprise profits in front of the other members of the group with the recognition that the other members may report them to the microfinance institution if they systematically understate profits.

VI.SPIRITUAL PRODUCTS OR CHARITY BASED PRODUCTS

Chapra, 1983 In order to achieve social justice an equal opportunities should be given to individuals within a society that is an important objective of economic development from an Islamic perspective Chapra, M. U. 1983. Monetary Policy in an Islamic Economy. Ziauddin Ahmed, et. al. eds., Money and Banking in Islam, International, Centre for Research in Islamic Economics, Jeddah, KSA. The purpose of Micro finance institutions is to maximize social benefits not act as profit oriented motives of as businesses concerned. The aim of Micro Finance is to create a sound financial institutions which offers effective and efficient financial services even at grassroots levels (Harran, 2010) In similar way (Hassan, 2010) focused on the amalgamation of zakat, waqf and Islamic Micro Finance to alleviate poverty by applying a theoretical method. He observed the hardships conventional microfinance had transported to the poor, as a replacement for of alleviating them from the dire situation. The proposed model is expected to be financially sound and sustainable in the long run, resulting from proper use of zakat and other charity funds, as these do not need a payback Hassan, M.K., 2010. An Integrated Poverty Alleviation Model Combining Zakat, Waqf and Micro Finance. (Akhter, 2009) in his observation ,Akhawat, an Islamic Micro Finance organization which is operating in Pakistan, in its critical financial analysis of the institution specifies that it provides services for all those living below the poverty line (BPL), including extremely poor. It's found that interest free loans or charity could be used as a powerful tool

against poverty. The study, however, recommends that integrating Islamic Micro Finance with NGOs Zakah, Awqaf and Takaful, as well as with professional training and capacity building institutions, would enhance the financial stability of Islamic Micro Finance institutions, and help achieve their objective of providing Micro Financial services to poorest under one roof apart from the formation of human capital

VII.MECHANISM

Here simply the client is owner to the finance given, it's given as sudka , zakat and same is not expected him to be return back . The donor expects reward as deed here after based on faith and receives spiritual relief. Therefore it's purely spiritual in nature. The client has no financial burden. its cost free and fear fee same could be utilized for trade based activities and in that case IMFI used these products as deemed material finance but not in practically as other products .it covers extremely poor as well as poor even those who could not work .

VIII.CONCLUSIONS

Literature review and experience reveals that financial institute works for monetary rewards as when we analyze Conventional micro finance, although their main target is poor borrower. But extremely poor is almost excluded. So as per data from various sources and peoples experience it is quite evident there are incredible openings for Asia to develop the Islamic Micro finance industry in order to uplift poor for his growth at ease. Islamic micro finance is able to support many chronic areas to enrich financial inclusion. Asian markets are home to a large Muslim poor population which enables a ready market. Every year for the introduction and Distribution of Shari'a-compliant particularly those having spiritual base, the progress represents more opportunities for the region to benefit from this rapidly growing Shari 'compliant industry. It's recommended that while talking Islamic micro finance we must segregate products based on spiritual and material grounds in order to benefit targeted poor. Further other faiths needs to be encouraged more and more.

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