



ISLAMIC MICRO FINANCE: A TOOL FOR SOCIAL EMPOWERMENT

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Abstract

The Islamic finance is based on the justness and morality, are the communally accepted principles of righteousness and fairness in investment. Islamic finance tries to replaces the greed with the accountability to God. The Quran (2:30) states that Man is created as the representative of God on the Earth. This Quranic guidance enables man to conserve and use prudently all the resources on the Earth. The Islamic microfinance is an innovative tool for social justice and empowerment in rural people through economic affairs and transactions. The conventional microfinance institutions and its mechanisms has been working for several years to eliminate poverty of the common man, especially in least developed and developing countries are yet to appreciably eradicate it from the society. Islamic micro finance ensure the social and financial inclusion of the poor through Shariah based financial tools featured with interest free transactions, restricted and ethical investments and non aggressive risk taking. Tools like Zaakh, Sadaqah can be given to village people for satisfying their basic financial needs. The intention of this paper is to spotlight the Shariah-b3iSe& microfinance tools in the perspective of sustainable social empowerment through financial assistance to enhance the livelihoods of the poor.

Key words: Islamic Micro Finance, Islamic ethics, Shariah, Social Empowerment.

Introduction

Islamic micro finance is the system based on the principles of Islamic law (shariah) and guided by Islamic economics. Islamic financial thoughts are originated from the Quran, the holy book of Islam; and Sunnah, the deeds, statements and unspoken approvals of Prophet Mohammed (pbuh). Shariah principles consist with prohibition of unethical, immoral and speculative activities. Ethics is a branch of social science that says about the moral standards and behaviors of a society. It refers to rules that an individual or group has about what is wrong and right. Religion is a prime force for shaping our ethics. Islam says about almost all aspects of commercial dealings such as ethical investment, partnership and profit sharing, customer relations etc. In fact Islamic finance is not reserved for Muslim community. It is not a Muslim finance and any one, Muslim or not can deal with Islamic financial instruments. Only the thing is that the products are designed according to well defined shariah principles.

Thomas M. Garrett writes - “the religion derives their moral percepts not only from human experience but from divine revelation. It must rely on the unaided human reason”. The well known historian Arnold J. Toynbee mentions - “no society could succeed without any religious aim. Mere desire for prosperity cannot motivate a person for building up an enduring dynamic and progressive nation.”

Statement of the Problem

Most of the studies were conducted in the field of analysis and applications of Islamic financial tools and techniques in shariah based investments. The common areas of studies in Islamic finance are Islamic banking, Islamic insurance and Islamic capital markets. But studies are very scarce in respect of Islamic micro finance. So the study attempt to evaluate how Islamic micro finance tools can be applies to eradicate poverty and other socio economic evils of the common man.

Scope of the Study

It covers conceptual framework on Islamic micro finance tools and how they can be apply to social and economic empowerment of rural people. Islamic micro finance is an upcoming field of study, so greater attention and sufficient research is needed to develop this branch of study compared with more advanced conventional micro finance. The study is relevant because, here the researcher attempt to identify the role of micro finance in socio economic empowerment with an Islamic ethical investment.

Objecives of the Study

- To examine the various microfinance tools in Islamic Finance.
- To analyze the role of Islamic Microfinance in social empowerment.
- To find out the relationship between religion and ethical financing.

Data used for the Study

The study is mainly concerned with secondary data. Data are collected from research papers, books of references, standard publications, published reports of the reputed institutions, periodicals, internet etc.

Concept of islamic Micro Finance

The theme behind Islamic finance is not made by human rulers, but is designed by the Almighty through his Divine Guidance. Man is only a vicegerent of God and he is only a trustee of wealth. Islamic business is based on this concept. Since the lack of absolute ownership on wealth may promote a sense of working for society. The ultimate aim of a Muslim is to attain '*Falah*', that is the victory of here and hereafter. He is more concerned about the 'Day of Judgment'. Hence his business must be based on socio economic justice and well being of the mankind. Main aims of the Islamic finance are the material and spiritual needs of the stake holders.

In Islamic point of view, economic problems like poverty are not because of scarcity of natural resources, but it is because of the misallocation, mal distribution, and mismanagement by community.

The ethical objectives of Islamic finance may be as follows.

- Fraud and usury free business
- Exclusion of financial transactions having excessive uncertainty
- Social coercion without class conflict
- Poverty eradication through zakat, sadaqa
- Eradication of social evils such as begging, robbery, theft, sexual exploitation etc.
- Balanced and efficient use of resources
- Women empowerment
- Free from exploitation
- Promote education and health
- Environmental sustainability
- Mutual respect and esteem
- Prohibit illegal transactions in business.
- Fulfilling business obligations and contracts.

Tools in Islamic Micro Finance

Shariah principles consist with prohibition of unethical, immoral and speculative activities. In Islamic finance money is only treated as the medium of transactions. Money is not used as a commodity with

Which to make profit. Banks deals with goods and documents. By engaging business and trade, money is converted in to something useful which in turn generate reasonable profit.

Prohibition of interest and speculation are the basic philosophy of Islamic institutions is which have been revealed in Quran. Both of these prohibitions were extended and elaborated on by the Prophet Mohammed (pbuh) through the sunnah.

Zakah

Zakah literally means “growth”, “increase”, and “purity. Zakah is one of the five pillars of Islam. It is the most important fiscal and distributive mechanism of an Islamic economy. Zakah is for the welfare of the society. It meets the basic needs of the poor. In Islam Zakah is compulsory. It is the levy on the wealth of the members of Muslim community.

It is the amount payable by a Muslim on his net wealth as a part of his religious obligation, mainly for the benefit of the poor and the needy. Every Muslim is responsible, who owns more than the exempted minimum to pay Zakah on it and it is the duty of Islamic state to collect and distribute it according to the manner prescribed by Quran.

Its importance can be judged by the fact that Quran narrate about zakah in various verses. In most of the verses, we can see that the Quran command injunction to perform prayers followed by the recommendation regarding zakah. Zakah accomplishes the socio economic needs of the society.

“Those who establish regular prayers and regular zakah, and have (in their hearts) the assurance of the hereafter” - Quran (31:4)

Social importance of Zakah

1. Zakah increases the productivity and flexibility of individual’s income and national income.
2. It helps to redistribute and reallocate the national income infavor of poor and other needy people.
3. Zakah reduces the economic disparities
4. Zakah restrict the conspicuous consumption of rich people.
5. It helps to increase investment.
6. State can utilize the idle (zakatable) income more effectively.
7. Zakah increase the morale of poor.
8. It helps to stimulate aggregate demand and purchasing power.
9. It eradicates poverty and ensures social security.

Sadaqa

Social spending is the best way for the social development. Social expenditure promotes equitable distribution of wealth and resources. Sadaqa is a tool for social spending. It is a voluntary charity in Islam by expecting reward from Allah both in this world and hereafter.

Prophet Muhammed (pbuh) said: every good deed is a form of sadaqa.” Any act which makes joy or benefits to others like smiling at someone, speaking a kind word, guiding other person, eliminating harmful objects from passageway, helping a blind human being etc., but the term sadaqah most commonly used to refer to charitable giving.

An institution can utilize the sadaqah fund for the areas such as job skill training, educational assistance for the poor, marriage support, widow/orphan support, green energy, animal farming, disaster management etc.

Waqaf

Waqaf is a shariah compliant voluntary charitable endowment from one's personal belongings or wealth in the form of cash or property. Waqaf is the perpetual investment in Muslim community on behalf of Allah. It is a voluntary social expenditure for the creation of nonprofit making institutions. Waqaf assets are commonly financed in mosque, schools, research, hospitals and social services. Waqaf is a CSR tool to reach the community and cater the different needs of the stakeholders through the following ways

- ❖ Charity and Health Programs
- ❖ Community Development Programs
- ❖ Assistance to Orphan and Destitute
- ❖ Entrepreneurship and Human Capital Development
- ❖ Endowment Funds

In His Quran Allah says: “the example of those who spend their wealth in the way of Allah is like a seed (of grain) which grows seven spikes; in each spike is a hundred grains. And Allah multiplies (His reward) for whom He wills. And is all-Encompassing and Knowing”

The Prophet (pbuh) said: “When the son of Adam dies, his actions come to an end except for three; Sadaqa Jariyah (ongoing charity), knowledge which brought benefit and a pious child who make supplication for him”.

Qard Hassan (Interest free Loan/ Benevolent Loan)

It is a form of financing in which the borrower obligated to repay the principal amount of loan at the stipulated future time but no interest is charged. It is mainly used for welfare purposes. It can be used as an alternative tool for short term financial needs of the business such as working capital requirement. Also the granting of qard to needy customers increases market demand of the durable products. It is helpful to poor farmers to purchase seed and fertilizers without much economic burden. Firms can use qard as tool for corporate social responsibility to fulfill their social obligations.

Conclusion

Islamic finance plays a unique role in the socio economic development. It provides more importance to human life and social development than concentrating upon the wealth and extra ordinary profit making. Islamic finance encourage the investments making social and economic developments such as house hold priority, education, health etc instead of a mere profit making investments. It plays a dominant role in the reduction of vulnerability of human life. It can make a vital role in both micro and macro aspects of economy. Islamic finance facilitate an ethical platform for doing a business for an individual development as an entrepreneur and also focuses social development by prohibiting interest, exploitation, gambling and excessive uncertainty by Divine Law.

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