

Employing Islamic Microfinance in Addressing Poverty Challenges in Brunei: A Mudarabah Approach

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ABSTRACT

Countries within the Asian region are continuously struggling to improve the living standards of their citizens. Some of them are still facing a plethora of challenges due to the ever-increasing levels of both relative and absolute poverty. This is especially among the poorest of the poor who have no access to the mainstream financial services. The conventional microfinance institutions have been greatly criticised for their dubious acts of charging exorbitant interests. Islamic microfinance has therefore, been seen as one of the viable alternatives to meeting the challenges of poverty and as an opportunity in the livelihoods of the people in the Asian region. This article analyses the magnitude at which Islamic microfinance can play a fundamental role in alleviating insignificant poverty levels in Brunei Darussalam through using a proposed *Mudarabah* financing model.

KEYWORDS

Islamic Microfinance, Mudharaba, Poverty, Poverty Alleviation, Sadaqah, Zakah

LITERATURE REVIEW

Microfinance and Poverty

Microfinance has received tremendous recommendations and acceptance in various countries for its positive impact on poverty elimination (Ahmed, 2002; Morduch & Haley, 2002; Rahim Abdul Rahman, 2010; Rahman, 2010; Riwanjanti, 2014; Ahmad & Ahmad, 2009). Previous research has shown that microfinance has got a positive correlation with poverty alleviation especially in countries where it has been implemented. This relationship is attributed to the positive impact it has led in people's lives, empowerment of women and youths, socio-economic developments, job creation and improvement in people's income and expenditure patterns (Rokhman, 2013). Similarly, Ahmed (2002); Ledgerwood (1999); Mago (2014); Nazirwan (2015) postulate that microfinance is linked to elimination of poverty as it greatly helps in provision of start-up capital to micro entrepreneurs who lack funds and thus enables them to become more self-reliant and avoid begging from others. They also argue that the system entrusts funds with the poor who invest them, earn a living and sustain themselves and their families.

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Microfinance is a system that extends financial services to the poor in form of microloans, micro savings and micro insurance both to individual households and small entrepreneurs with the aim of reducing poverty and promoting socio-economic developments (Ledgerwood, 1999; Mago, 2014; Obaidullah, 2008; Riwanjanti, 2013). According to the Summit (2004) cited in Abdul Rahman (2010), microfinance means “Programme that extend small loans to very poor people for self-employment projects that generate income in allowing them to take care of themselves and their families” (Abdul Rahman, 2010, p. 284).

Obaidullah (2008) observes that microfinance “implies provision of financial services to poor and low-income people whose low economic standing excludes them from formal financial systems. Access to services such as, credit, venture capital, savings, insurance, remittance is provided on a micro-scale enabling participation of those with severely limited financial means” (Obaidullah, 2008, p. 1). The whole idea of microfinance is to bring on board all poor individuals who have been formerly excluded from financial services and this has led to their lagging behind in developments and social empowerment.

Islamic Approaches to Poverty Alleviation

The Islamic way to deal with neediness mitigation contrasts from that of the regular standard approach because of its uniqueness in appropriateness, working and the foundations included. A key unmistakable element of this approach is the standard of guaranteeing social equity (*‘adl*) and the genuine faith in the unity of the Almighty Allah (tawhid). Islam goes for guaranteeing that people and the whole society accomplish the fundamental things of life as installed in the *maqasid al-Shari’ah* (the objectives of Shari’ah) namely, 1- preservation of religion (*hifz al-Din*), 2- preservation of life (*hifz al-nafs*), 3- preservation of acumen (*hifz al-aql*), 4- preservation of lineage or posterity (*hifz al-nasl*) and 5- preservation of property or wealth (*hifz al-mal*).

Islam likewise supports the reception of a comprehensive structure needed for uniting every single individual independent of culture, race or geological area with his/her diverse gifts, abilities and organizations inside which individuals live and work (Hassan, 2013, p. 224). This structure must guarantee that it includes compelling methodologies as proposed by Sirageldin (2000) that work regarding the Islamic moral framework supported for in the aphoristic approach by Chapra (2009).

It is recommended that neediness lightening methodologies or techniques ought to include approaches that expand GNP with a down to earth and successful monetary improvement design, accomplish value in the dissemination of wage, to give break even with chances to all in a general public for redesigning financial states of the impeded strata of the populace, and address singular issues of particular circumstance. Islam assaults the foe from every one of these fronts (Sadeq, 1997, p. 116).

Hassan (2010) and Sadeq (1997) propose that positive, preventive and remedial measures that must be followed in detailing Islamic strategies or ways to deal with neediness mitigation.

Positive Measures

Growth in income and functional distribution of income are the positive measures advocated for in alleviating poverty (Sadeq, 1997). It is argued that national income positively relates with the levels of poverty in that an individual will be economically well off and vice versa depending on the level of his or her country’s income and the effort put into work. In supporting their argument, Hassan (2010) and Sadeq (1997) refer to the Qur’an (53:39¹ and 17:29)² which encourage mankind to work hard so as to have a better living and also discourage both extravagancy and being ungenerous to others.

Hassan (2010) argues that achieving high income growth may not be achieved if there is inequitable distribution of income among the various factors of production which calls for functional distribution of income. He relies on the Islamic teaching that prohibits individuals from injustice, unfairness and consumption of *riba* but encourages sharing of profits among partners on an agreed ratio thereby ensuring that there is equity in the distribution of income among all factors of production (Hassan, 2010; Sadeq, 1997). The Qur’an (16:90³ and 83:1-3)⁴ commands people to be just and

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