

## DEVELOPING PROGRAMS BASED ON *MAQASID SHARIA* BY ISLAMIC MICROFINANCE INSTITUTION TO SUPPORT FINANCIAL INCLUSION

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### Abstract

Islamic Microfinance has been put in greater attention nowadays. Not only developing countries have developed this institution but developed countries also have developed Islamic Microfinance institution. Many studies shows the important role of Islamic microfinance in alleviating poverty. There are many financing programs by Islamic microfinance institution has successfully change the life of poor people. In fact, the Islamic financing program is more inclusive than conventional microfinance. Even the world Islamic microfinance institution growth is untrammelled. However the existing financing program created mainly focus on the economic aspect and less on other aspect such as education, health and others. This program doesn't have sustainability for long term growth. Indeed, the Islamic microfinance has to provide world welfare and hereafter welfare. Hence, this paper aims to propose a financing program which is based on maqasid sharia. The five elements in maqasid sharia such as safeguarding of faith, human self, intellect, posterity, and wealth are transformed into programs by Islamic microfinance institution. The program put attention on the halaqah concept to implement those five elements. The halaqah is intensive small group discussion which can optimize five elements in maqashid sharia. Besides, halaqah is more intensive program than community banking. It shows that halaqah program is more inclusive than other Islamic microfinance program. For the example of proposed programs are discussing the administration process during the halaqah is fulfilling the elements of wealth in the maqasid sharia. It is expected that with this proposed program the prosperity in this world and hereafter can be obtained

**Keywords:** Islamic Microfinance Institution, Maqasid Sharia, and Financing Program.

### 1. INTRODUCTION

Islamic Financial Institutions (IFIs) particularly the Islamic Micro Financial institution are important factors to be discussed in the recent years particularly in the developing country such as Indonesia. It has been extensively discussed since the during the economic crisis, this institution had shown a remarkable performance as if the crisis was not affecting them. The achievement was due to the fact that the Small Medium Enterprises (SMEs) contributes highly to the GDP in Indonesia. In terms of the number of the unit of SMEs, it can contribute more than 99% out of total GDP. For this reason, it is a must for all elements (society and government) to strengthen the capacity and capability of these IFIs. As the role of IFIs is focusing on the low level of income, then it is expected that those people who are in low income level may upgrade their level into a higher one.

So far we found that many of the IFIs are doing just giving the financing to their clients and receive the payment back after the financing duration ends. No mistake can we find in this activity. However, doing only this thing would not solve the whole problem of life as has been mentioned in Islam. The problems have to be solved mainly by the customers themselves, however, if IFIs can design programs in certain ways that would solve the problem, this is even better. Once all of the problems solve, we can have the prosperity (welfare) not only in this world but also in the hereafter.

The element of hereafter is missing in the discussion of the conventional financial institutions. This is so since, in conventional economics, there is no such thing as the life after dead. All of the discussion is limited only in this world. So the meaning of the prosperity will also be different between prosperity by the

conventional economics and prosperity by Islamic economics. The later means not only in this world but also in the hereafter.

Other than that, IFIs have different characteristics as compare to the conventional financial institutions. Another difference is on the approach to the clients. Normally the approach of the conventional institutions to their clients is debtor to creditors, whereas the approach of IFIs and customers is partners where each parties are treated equally based on the contract that have been agreed upfront.

This papers attempts to argue that IFIs shall not only fulfilling one element in the maqashid shariah which is prevention of wealth, but also prevention of other elements such as religion, self and so on as has been prescribed in Islam

After the introduction, this paper elaborates the meaning of Maqashid shariah and follow with the gist of this paper that is the proposed programs created by IFIs in fulfilling the 5 elements of maqashid shariah with arguments in each elements. This paper will end with conclusion to wrap up the discussion.

## **2. MAQASHID SHARIAH**

In the book by Umar Chapra, the meaning of Maqashid Syariah by Imam Al Ghazali is the prosperity of the human in 5 elements religion, self, intellect, posterity and wealth. This five elements has to be preserve by everybody in order to get happiness in this world and hereafter. Every single action which preserve any of those 5 elements is desirable. Conversely, any single action which led to deteriorating of any of those elements is not desirable.

Fakhruddin Ar Razi argue that preserving self is important as human is designed by Allah to be the khalifah in this world. This means that human have to be equipped with the strong physics enable them to run their role as khalifah. Chapra (2007) is of the opinion that the important thing in sulfilling the self is on the increasing the freedom, respect, moral, safety education etc. basically with the detail explanation of the self, it could support other elements of maqashid shariah which eventually reach falah.

Prevention of religion is treated second by Chapra, he argue that only with the strong physical body and soul, religion can be preserved. Otherwise it is not. However, strong body and soul will not be enough. It has to be instilled with the religion for them to be able to manage the world according to what has been requested in the holy Quran. This is because Quran explains not only ways to get close to Allah but Quran also explain about how to manage this world.

Al Ghazali argue that intellect is the sources of the knowledge. The new knowledge found is coming from the exercising the intellect so much so to create the work of human in a more effective and efficient ways. Religion is not meant to weakness the intellect rather religion is supporting the intellect. Many of the verse in the holy quran can be correctly proven by intellect although it requires hundred or maybe thousand years after the verse was reveled.

Wealth is an important instrument to make the realization of the maqashid shariah. according to Chapra, wealth is given by Allah to us to be developed in a more productive ways and be used wisely to reduce the poverty, to increase the standard of living and reduce the gap between rich and the poor. For this reason, Al Ghazali and shatibi put this element of wealth at last in the maqashid shariah.

## **3. PROGRAMS CREATED BY IFIS INLINE WITH THE MAQASHID SHARIAH**

This section is the gist of this paper. That is this section will describe the programs by IFIs which accommodates the 5 elements of maqashid shariah. However, this model will not work unless the IFIs have to make collaboration with other institutions.

The assumption in this paper is that, the IFIs will not do any of those activities alone rather they have to create synergy with other institutions which benefit all. this is because IFIs are the instituion which focus only to empower the micro and small enterprise in term of economics and human development, but incase of ensuring the health and formal educations IFIs could not able to provide those facilities and it requires support from other institutions.

there are at least four institution in which the IFIs have to deal with. those four are:

1. Mosque (to cater for the prevention of religion)
2. Educational institution (to cater for the prevention of intellect)
3. hospital and clinic (to cater for the prevention of health and posterity)
4. Ministry of cooperatives and Zakat institution (to cater for the prevention of wealth)

### **3.1. Mosque (to cater for the prevention of religion)**

During the propethood time, the role of mosque was not only for the facilitaty of the muslim to pray, but also it was used also as a center for other activity, such as a place for physical physical training during the wars against quraisy, having a medical treatment for the sick people, having syuro (discussion )to solve the dispute between persons, stop over for the musafir. However, in this current modern practice, the use of mosque is less as many of the mosques are used only for mainly pray 5 times a day.

This paper attempts to propose the use of mosque as it was before. Technically, mosque is used as facility to cater for the prevention of religion as part of the five elements of maqashid shariah. One among the important program creaaed by IFIs in preventing the addin is that the customers of IFIs will be grouped into halaqah (small grouped discussion) that will be led by account officers which act as preacher. The halaqah is set to be held weekly whereby the preacher has to preach on the islamic studies topic and follow with the loan repayment to be given to the account officers.

The halaqah is designed to be held in mosque and not in other places. This design aims to provide the islamic spiritual environment during halaqah. Having the spiritual environment, with the Islamic knowledge given by murabbi, customers are expected to feel those experience and be close to Allah.

The mosque can also be used for signing the financing contract whereby the financier has to shake hand with the borrower showing that the contract is a promise and has to be returned back to the financier and it is seen by Allah. this way can be very effective as part of the financing mitigation risk. This may create the obedience to God and not obedience to the financier. obedience to God is much more important as compare tot he obedience from financier. so having obedience to God in the heart of the borrowers, it is expected that they can run the business according to the value of islam such as honesty, humanity and so on and result in the profit for them.

In the halaqah, the preacher can preach with various topic on the islamic studies, for example, the role of man in this world, lifestyle in Islam, etc. Basically participants in the halaqah is instilled with the basic understanding of Islam. Some may knew the topic and some may not. But as the topic is important, then it has to be understood by all of them. After the lecture is given, a discussion may important to be held as well. This is to make them having a compehensive knowledge about the topic

In short, this paper argues that mosque has to be effectively used to cater for the prevention of religion. One of the program for that purpose is to have halaqah (Islamic group discussion) which discuss various topic on the islamic knowledge. This paper argues that the halaqah concept might effectively prevent the religion

### **3. 2. Educational institution (to cater for the prevention of intellect)**

IFIs are the financing institution where it provide funds for those businesses. This institution are far from handling the education for the cutomer. Since prevention of intellect is important as part of the maqashid shariah, giving the education facility by the the IFIs, is an example to be given eventhough the institution is not an education institution. Cooperation with the educational institution is a must for the IFIs to run program which aims to prevent the intellect

Education facility in this case is for the family of the borrowers. To be recognized as the institution which follow the maqashid shariah, IFIs have to ensure that the borrowers also gain a proper education or at least

ensure that the minimum education level is obtained. For those member of the borrowers family who do not have enough money to go to school, then it is the obligation of the IFIs to require them to go to school with the support of the IFIs. This support can be in the form of the funds from Corporate Social Responsibility (CSR) of the business companies, funds from IFIs itself. Moreover, zakat institution can also be joined to provide such a educational fees for the borrowers family provided that the recipients are eligible to receive zakat.

Prevention of intellect can also in the form of giving the borrower an important knowledge which make them having a more comprehensive understanding about certain topic. For example, the borrower is taught about the economy of other countries. This will indirectly give the knowledge for the borrowers.

### **3. 3. Hospital, Clinic and microtakaful and medical insurance (to cater for the prevention of health and posterity)**

Health is another important thing that needs to be preserved. Again, IFIs are not focusing on the health of the borrowers and families of borrower. But borrowers and their family are not able to work if they are sick. If member of the family is sick, the borrower has to close the business for that day and bring their family to the hospital. It results in the unearn money for that day. If this happens more frequently, it affects the ability to repay back the loan.

In this case, what the IFIs should do is to have them engaged with the microtakaful. While there are various types of microtakaful, IFIs can choose any package which suit with the purpose and the IFIs ability. There exist program in the microtakaful whereby if the family member sick, it will be covered by microtakaful companies. Hence the borrower shall earn funds despite he close down the businesses for that day.

Other issue that need to be settle down is on the issue of hospital and clinic which accept the microtakaful insurance. In this case, it is the role of the IFIs to approach and negotiate so much so that eventually the hospital and clinic are willing to accept the microtakaful concept.

IFIs have to able to have collaboration between those institutions (hospital, Clinic and microtakaful insurance). This collaboration effort is the implementation of the prevention of health and posterity.

posterity here means ensuring that the pregnant woman can deliver the baby in a normal way. Program that can be created for that purpose is to have the pregnant woman a complete nutrition needed for her and for the baby. The program starts from the first month pregnancy. IFIs program collaboration with the hospital and medical treatment shall focus on the pregnancy woman up until not only delivering the baby but also until the baby grow in a certain age.

During the pregnancy, any expenses incur for regular control to the medical doctor on the pregnancy has to be supported by the IFIs (certainly with the support of other institutions). The nutrition needed during the pregnancy has to be completely provided to ensure that the baby born is healthy. moreover, the healthy of the mother has also been taken into account before and after the baby delivery.

Health is one of the important thing in life. Health is certainly the responsibility of the government to provide for each and individual person. However, in some country, like indonesia, government is unable to provide a full medical treatment especially to the low level income people. This has to be fulfilled by the IFIs. Having known that there are many diseases which are not covered by the medical treatment by government, IFIs has to allocate their CSR for that purpose. If not then it is difficult for that IFIs to be recognised as the IFIs which concern about the maqashid syariah

### **3. 4. Ministry of cooperatives and Zakat institution (to cater for the prevention of wealth)**

The other important institutions which the IFIs have to deal with are the zakat institution and the ministry of cooperatives. Those two institutions are vital for the IFIs since they can provide huge support for the IFIs program. Prevention of wealth in this case means that any effort that maintain or increase the level of prevention of wealth is desirable. For example, there are many of the customers who are traders then prevention of wealth can be in the form of giving them knowledge how to work in a more efficient way so that

more profit can be earned. It can also be in the form of giving the knowledge of customer behavior where the trader will be equipped with the understanding on how to segment the market.

For them to do so, IFIs can also deliver those knowledge via the account officers during the halaqah time. However, if IFIs fail to do so, IFIs have to collaborate with the ministry of cooperatives in which normally that ministry give those basic marketing to the business enterprises for free. If the IFIs can manage the information on the activity of ministry of cooperative to the micro and small businesses enterprises then it will benefit all and as this is preventing the wealth then this act is desirable.

Other than giving the free training (training on the financial administration etc) to the micro and small businesses which could increase their knowledges, ministry could also support the small business on marketing issues. Small business sometimes lack of the marketing skill. They may create a qualified product but they do not know how to market those product domestically as well as internationally. This is the job of the ministry to support those businesses with marketing issues.

For example: ministry may have a program of micro, small businesses product exhibition local as well as international. In this case, ministry will choose and provide some funds to some of the best few businesses to come to that event. Not a few that some of the international exhibition were very successful since they can market the quality product to other countries.

Moreover, collaborate with zakat institution is also important. zakat institution may give benevolent loan to the new businesses. For the beginners, it is a burden for them to repay back the loan with the margin. In order to create a less burden, qardhul hasan will be given. Those beginners will be given a financing some amount of money in which they only have to pay back the principles.

Zakat institution can not charge margin on that benevolent loan as it categorizes as interest which is riba. So qardhul hasan is suitable for the beginners. A donation also not quite right to be given to the beginners as they might not work hard since they may think donation is a right for them and no need for them to repay back the financing. So in short, donation will not educate them to work effectively.

This collaboration works between the IFIs and the zakat institution may support for the issue of Financial inclusion these days. In simple meaning, financial inclusion is how to make people interact with financial institution which previously. For example: if a certain group of people has never interact with financial institution, then having them on board with the financial system is a true meaning of financial inclusion.

Since the collaboration is to look into the people who may not engaged with the financial institution then if they found one and they can bring them to interact with IFIs then it can be said that the collaboration is supporting the financial inclusion.

## CONCLUSION

This paper attempts to argue that the role of IFIs shall not be just giving the financing to the customers, but it also have to accommodate the 5 elements of maqashid shariah namely prevention of religion, intellect, health, posterity and wealth. Programs created by the IFIs have to certain extent support the customer with all those elements. Having halaqah with various topic of Islamic studies are to prevent the religion. Educating the customers with the general knowledge is the example of prevention of the intellect. Health and posterity can be in the form of ensuring the health of the customers and their family via collaborating with the hospital, clinic, microtakaful and medical insurance. Lastly, program to instill the knowledge which can be used directly, like training, is an example of prevention of wealth. It is expected that with these programs, customers are gaining the most benefit in dealing with the IFIs. Moreover, IFIs may sometimes located in the remote area where no single financial institution exist. This is because financial institution will have high cost if the office is located in that area. Hence this chance is grabbed by the IFIs. Having IFIs located in the remote area, it open chance for them to look for people who have not been engaged in financial institution. if they can be the customer of the IFIs then IFIs are said to support the financial inclusion.

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