

The Approaches of Islamic and Conventional Microfinancing for Poverty Alleviation and Sustainable Livelihood

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Abstract: Poverty is the main illness for sustainable livelihood because it destroyed human basic rights for surviving with minimum opportunities especially political, social stability and economic processes, literature and environment. The aims of this study are to discuss about existing approaches of poverty alleviation and sustainable livelihood. The study found throughout the discussion of the theoretical sources i.e., participatory approaches have determined as a good way of poverty alleviation and sustainable livelihood especially zakat based Islamic mode of financing and Qard-al-Hasan on the basis of spiritual values as an alternative model for poverty alleviation and ensuring sustainable livelihood.

Key words: Microcredit and microfinance, poverty, sustainable livelihood and Qard-Al-Hasan

INTRODUCTION

The poverty and approaches of poverty alleviation are key attentions to development practitioner since the world running in the way of civilized. The participatory approaches have been recognized as the prime strategies in the overall movement to end of the poverty (Hossain, 1988). Their lack of assets for collateral, lack of financial records and limited credit history has made almost impossible for them to obtain credit from the formal financial institutions. Due to lack of capital, the poor are tied to low productivity, usually self-employed economic activities. Thus, providing the poor with credit will generally help to solve the problem of the poor. In this regards, microfinance program is generally perceived as one of the practical and attractive means for providing accessibility of the poor to credit and hence reducing poverty and achieving development objectives (Bhuiyan *et al.*, 2011a, 2011b). On the other hand, conventional participatory approaches are still insufficient in many aspects for poverty alleviation due to missing of the holistic view in poverty reduction as well as not ruminated on the spiritual, moral and ethical dimensions of human-socio-economic development, which is precious in sustainable human development Bhuiyan *et al.*, 2010; 2011a, 2011b). On the same way the studies identified the interest rate charged by Micro-Finance Institutions (MFIs'), which has a range of 15-

20% from institutions and 33-120% in non-institutional cases, as one of the major impediments behind the effective financing solution for the poor (Amin *et al.*, 2003; Kabeer, 2001). Furthermore, in the era of high-growth Islamic banking, the best-fit alternative to conventional participatory approaches is an Islamic mode of financing, which promises the same benefits based on Shariah. Because of Islam has made clear its goal of human and socioeconomic development, which should be through the ultimate satisfaction of Allah (SWT). Allah (SWT) has clearly communicated in the Quran to assist each other in righteous deeds (Al-Quran 5: 2).

In the above circumstances, this study has aimed to do throughout discussion about the theories belongs to poverty alleviation and sustainable livelihoods for linking with any further study. The aim this study is to draw out the linkages with poverty and sustainable livelihood from existing relevant poverty alleviation approaches.

Poverty alleviation approach: Poverty is the main illness for overall development in Bangladesh as like as others South Asian countries such as India, Pakistan, Nepal and Sri-Lanka and Bhutan. Particularly in Bangladesh while the increasing the rate of poverty as well as increasing the percentage of population under poverty line every year and number of marginal poor

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also is increasing year by year, from 78.2 million poor people in 1970 to 80.46 million people in 2009 (Imai and Azam, 2010; Karim *et al.*, 2006). In such situation, poverty destroys human basic rights for surviving with minimum opportunities. So it is extremely important to alleviate poverty or at least reduce otherwise it adversely affects in the all aspects of human society and culture, such as: politics, social stability and economic processes, literature and environment (Dulal, 2007). As far as theoretical perspectives concerned there are five broad perspectives are used to address the issue of poverty in South Asia especially in Bangladesh.

The neoclassical economics approach: The new classical approach forecasted the similarity between first and third world countries' economies notion's but often fail to recognize the existing imperfection in the third economies seriously (Rapley, 2002). The new classical approach acknowledges the market led-development for poverty alleviation and improve livelihood of the poor in the long run. It is based on the premise where there is positive progress in the poverty reduction through the "Trickle- Down" that generates profit and reinvested in the economy. Then this creates new jobs and investment which generates another round of economic growth (Dulal, 2007).

One of the successful implications of the new classical theory in the economic and social sector of South Asian countries is called Green revolution during 1970s. Furthermore (Oyen *et al.*, 1996) reported that the Green revolution helps to reduce poverty in the member's countries i.e. India, Pakistan, Nepal and Bangladesh of South Asian Association for Regional Co-operation (SAARC). They also found that Green revolution transformed the rural traditional economy by creating jobs with sound waves, stimulated different types of industrial development including input and demand linkage between agricultural production and incomes.

On the other hand, there was a strong argument from the critical parts about the success story of Green revolution. Vandemoortele (2002) noted that "Trickle-Down" seldom reaches far beyond the middle class. The overall growth and creation of more jobs don't guarantee the ticket out of poverty because they only address in the structural causes. For this reason most of the poor are either unaffected by aggregated growth or have a job but belong the working poor (Vandemoortele, 2002).

Green revolution was not working properly with the poor because the poor have limited land or landless, high indebtedness, Illiteracy, low social status and limited political control rather it has been benefited to the landlord and big farmers due to their large size of

land and investment. They also got benefited from government subsidized credit than the small landholders (Bloom *et al.*, 2001). As a result Green Revolution could not able to teach poor to reach out them from the poverty rather create inequality of income between poor and landlords.

The new classical theory is silent on women's participatory activities for income generation for the family and they give less attention in the half of population in the world. In the South Asian countries women have been ignored for family decision making rather male are leading all family issues. They work on the farms and look after family babies and old parents. So it is the obviously true things without the empowerment of half parts of human life development is quite challenging. According to the new classical theory poverty cannot be reduced if the policies hinder the functioning of a flexible unfettered market (Gilbert, 2004). Furthermore, Stren mentioned market is not substitutes but complementary to one another and it is the duty of stat to lay the foundation for the market if the market is to flourish and ensure long-term prosperity (Stern, 2002). In the above conditions microfinance is the one of the ways of solution for the poor in the rural area to improve the allocation of resources, promotion of local market and adopt the best use of technology for faster economic growth and rapid development (ADB, 2000).

The political economy approach: Political economy approach assumes the poor remain poor not only for personal qualities but also the deprived of opportunity and benefit that they are deserved. This approach basically discusses the conflict of interest between poor and non poor to find out the main reason behind the existence and perpetuation of poverty. It also noted the causes of poverty are the result of certain economic and social processes intrinsic to particular social systems. Especially it considered the rural poverty as the result of extreme inequalities in the land ownership and control (Dulal, 2007). On the other hand in the South Asian country political economy approach can't reduce the poverty due to lack of holistic practice and political unrest between opposite side. Moreover, Rapley said that political economy approach exaggerated the cohesion and power of urban interest groups in their defense of protectionist development strategies (Rapley, 2002).

The culture of poverty approach: The culture of poverty approach has been introduced by one of anthropologist named Oscar Lewis in 1959. The approach believes that the poor have to develop their own institutions and agencies for their survival and it

blames the society for ignoring and bypassing the poor. On the other hand according to the culture of poverty approach poverty is not just because of an individual does not the required income to sustain his/her livelihood in a dignified manner but it is a way of life handed down from one generation to the next (Dulal, 2007). Furthermore, Islam (2005) also noted that the culture of poverty approach is a specific syndrome that grows up in some situations; it requires an economic setting of the cash economy, a high rate of high unemployment, low wages and people with low skills. In the absence of voluntary, state supports and stable family it does not offer prospects for upward mobility (Islam, 2005).

In the way of criticism of the culture of poverty approach considered that this theory be absurd and inadequate because it justifies the status of poor rather suggesting intervention for reducing poverty. In the same way other argued that poor considered themselves unfortunate and they don't have anything to begin with even they can't ship their own fixed assets to the next generation. Thus it is creating a poverty generation to generation in the dipper situation. Finally a culture of poverty approach is also a condition way if the poor can able to accumulate their assets and workforces by the support of society as well as government and used their assets in the income generation process then only poverty will alleviate otherwise not. In Bangladesh it quite challengeable because of disfavor of the above support from society as well as government.

The participatory poverty alleviation approach: The participatory approach was coming in the front while the failure of the past macro-economic development strategies in eradicating poverty in a sustainable manner pave the way for changes in the development strategy to specifically for the targeted poverty. Last three decades participatory approach has been launched as one of the prime strategies in the overall movement to end of the poverty. Many countries in the world have also established participatory approach with the explicit objectives of reducing poverty by providing small amounts of credit to the poor to generate self employment in income-earning activities.

Participatory approach realized that poor as well as the lower income group are facing major problems is access to credit.

Islamic approach of poverty alleviation: Islam has made clear its goal of human and socioeconomic development, which should be through the ultimate satisfaction of Allah (SWT). Allah (SWT) has clearly communicated in the Quran to assist each other in

righteous deeds (Al-Quran Surah Al Maida, Verse no. 2) where the agreement should be written having witnesses with faithfulness between parties where any future transaction is involved (Al-Quran Sura Baqarah, Verse No.282). The Prophet Mohammad (PBUH) has also stressed on cooperation and assistance, such that came into Al-Bukhari and Muslim as: "Believers are with other believers like parts of a structure that tighten and reinforce each other." Another Hadith narrated by Annas Ibn Malik notes how Prophet puts more emphasis on solving poverty with trade, where the Prophet suggested a poor man to sell some articles from his house and buy an axe to cut woods from the jungle and sell it in the market for earning money. There are two ways of forming for poverty reduction from the society one is nonprofit approach to poverty and another is profiting approach to poverty.

Non profit approach toward poverty alleviation: In the nonprofit approach to poverty alleviation and development in Islam offer several mechanisms, such as, sadaqa, *zakah*, *waqf* and *qard-hasan*. The term sadaqa is broader in meaning. It implies charity. Sadaqa when prescribed and compulsory for Muslims - refers to *zakah*. Sadaqa in its definition may include various forms of charity, such as, *tabarruat* (donations), *heba* (gifts), *infaq* (charitable spending) and may indeed connote any act of kindness and charity. When benefits from sadaqa are expected to continuously flow over the future, it is called sadaqa *jaria* (perpetual sadaqa) and involves *waqf* or endowment of land, property and physical assets for charitable purposes. *Qard hasan* implied loans that are free from any benefit or return to the lender and is more commonly referred to as interest-free loan (Obaidullah, 2008). In the same way *zakah* is one of the fundamental pillars of Islam. *Zakah* literally means to purify, to develop and, to cause to grow. *Zakah* is the prescribed share of one's wealth to be distributed among the categories of those entitled to receive it. An individual entitled to pay *zakah* is called *muzakki* and the individual entitled to receive *zakah* is called *mustahiq*. Islamic microfinance program s aims at transformation of *mustahiq* into *muzakki* within a definite time frame (Obaidullah, 2008).

The *waqf* is another approach of Islam to poverty alleviation. It implies holding certain physical assets and preserving it so that benefits continuously flow to a specified group of beneficiaries or community. There is a prohibition on its use or disposition outside its specified purpose. A dominant characteristic of *waqf* is "perpetuity". Therefore, *waqf* typically applies to non-perishable properties whose benefits and usufruct can be extracted without consuming the property itself.

Waqf mostly involves devoting a land or building for religious or charitable purposes (Obaidullah, 2008).

Furthermore, *Qard Hasan* to poverty approach means a beautiful loan. It is a loan granted by the lender without expectation of any return on the principal. The following verses from the holy *Quran* reveal the importance of this institution:

- Who is it that will lend Allah a *qard hasan* which He will multiply for him (the lender) many times and for him shall be a generous recompense (Al-Quran Sura Hadith Verse no. 18).
- Verily, those who give *sadaqa*, men and women and lend to Allah a *qard hasan*, it shall be increased manifold (to their credit) and theirs shall be an honorable good reward (Al-Quran Sura Hud, Verse No. 57).
- If you lend Allah a *qard hasan*, He will multiply it for you. Allah is the most appreciating, the most forbearing (Al-Quran Sura Bani Israiel, Verse No. 64)

Profit approach toward poverty alleviation: Islam has encouraged trade for profit but prohibited *riba*. According to Al-Quran “Allah will deprive *riba* of all blessing, but will give increase for deeds of charity: and Allah does not love the ungrateful and unjust. (2: 276). In the same way he said “Oh believers, fear Allah and forgo the interest that is owed, if you really believe. (2: 278). The holy Quran declares trade to be lawful means of livelihood as opposed to *riba*, which is forbidden from being oppressive and exploitative. The Islamic profit based models have been formed through the concept of Islamic “*Shariya*” in the finance i.e., *Mudaraba*, *Bai-Muajjal*, *Murabah*, *Ijara* and *Bai-Salam* (Kaleem and Ahmed, 2010; Obaidullah, 2008).

CONCLUSION

From the existing theoretical frameworks poverty alleviation approaches, it has been given enough motivation to say that the participatory approach has been recognized as one of the prime strategies in the overall movement to end of the poverty and ensure sustainable livelihood. Because it realized that poor as well as the lower income group are facing major problems is access to credit. In this regards, microfinance program is generally perceived as one of the practical and attractive means for providing accessibility of the poor to credit, to increase their total family through different livelihood strategies of Income Generating Activities (IGAs) and thus, sufficient income provides a hope to the poor to ensure achievement of sustainable livelihood by improving good health, access of children's education, achieved skill, acquiring assets, take part social activities. After those achievements they acknowledged themselves as

important parts of family members that means other family members honor about their opinion at the time of decision making. Furthermore, at the end above successive factors microcredit borrowers able to hence reducing poverty and ensure the opportunity of sustainable livelihood. At the end the study concluded from the throughout of discussion of the theoretical sources i.e., participatory approaches have determined as a good way of poverty alleviation and sustainable livelihood especially *zakat* based Islamic mode of financing and *Qard-al-Hasan* on the basis of spiritual values as an alternative model for poverty alleviation and ensuring sustainable livelihood.

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