


Chapter 33

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

Ssemambo Hussein Kakembo

*School of Business and Economics, Universiti Brunei Darussalam (UBDSBE), Bandar Seri Begawan,
Brunei Darussalam*

Abu Umar Faruq Ahmad

 <https://orcid.org/0000-0003-1523-1883>

Islamic Economics Institute (IEI), King Abdulaziz University, Jeddah, Saudi Arabia

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.

DOI: 10.4018/978-1-6684-7552-2.ch033

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; Riwayatanti, 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.

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; Riwayatanti, 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).

12 more pages are available in the full version of this document, which may be purchased using the "Add to Cart" button on the publisher's webpage:

www.igi-global.com/chapter/employing-islamic-microfinance-in-addressing-poverty-challenges-in-brunei/314776

Related Content

Financial and Macroeconomic Drivers of Bank Profitability: Evidence From Greek Systemic Banks During 2009-2019

Panagiotis Barkas, Theodoros Kounadeas and Nikolaos Dimitrios Spatharakis (2022). *International Journal of Corporate Finance and Accounting* (pp. 1-22).

www.irma-international.org/article/financial-and-macroeconomic-drivers-of-bank-profitability/312568

Basics of Payment Systems

(2011). *Payment System Technologies and Functions: Innovations and Developments* (pp. 1-10).

www.irma-international.org/chapter/basics-payment-systems/54694

The Impact of Ownership Structure on Firm Performance: Evidence from Pakistan

Qaiser Rafique Yasser and Abdullah Al Mamun (2016). *International Journal of Corporate Finance and Accounting* (pp. 36-54).

www.irma-international.org/article/the-impact-of-ownership-structure-on-firm-performance/164986

An Assessment on Inflation Risk and Its Effects on Business Operations

Ümit Hacıoğlu, Hasan Dinçer and Burcu Parlak (2015). *Handbook of Research on Strategic Developments and Regulatory Practice in Global Finance* (pp. 197-216).

www.irma-international.org/chapter/an-assessment-on-inflation-risk-and-its-effects-on-business-operations/127791

Performance Aspirations and Corporate Tax Avoidance

Timbale Lukas (2021). *International Journal of Corporate Finance and Accounting* (pp. 40-58).

www.irma-international.org/article/performance-aspirations-and-corporate-tax-avoidance/285971