



Analysing the Significance of Maqasid-Al-Shariah in Islamic Microfinance: A Narrative Review

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Abstract

Islamic microfinance (IsMF) is a method of financing that offers small loans to the underprivileged and impoverished on an interest-free, frequently non-collateralized basis. The IsMF gives the poor access to financial resources, making it possible for them to advance their economic and social well-being. As a novel and effective financial tool, Islamic microfinance can also help the impoverished escape the cycle of poverty. While there may be several IsMF models, the procedure generally entails providing the underprivileged with small loans and technical support while also encouraging compassion and charity through abiding by Islamic *Shariah's* guidelines. This study aims to analyse the basic tenets of Maqasid-al-Shariah and how these tenets help shape the concepts of Islamic microfinance. In this study, a narrative literature review approach was used, and to that end, 36 peer-reviewed articles published in various peer-reviewed journals over the last ten years were gathered and examined to get the essential information. It is expected that the findings of this study will be useful for Shariah scholars and financial experts to evaluate how the concepts of *Maqasid-al-Shariah* are vital in explaining the framework of Islamic microfinance.

Keywords: Maqasid-al-Shariah, microfinance, Islamic microfinance.

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1. Introduction

Microfinance can significantly contribute to the reduction of poverty by offering financial services to the destitute and underprivileged people of a nation who are unable or unwilling to embrace official banking systems. In the long run, it might make it possible for the underprivileged to contribute to society and the economy. Islamic microfinance, in particular, has the ability to aid poor people in escaping the cycle of poverty as a new financial system. Islamic microfinance is a practical and Shariah-compliant way to help the poor people improve their socioeconomic conditions. Islamic microfinance may also help those who suffer from extreme poverty if it is properly executed.

The protection of religion (*hifz al-din*), the mind (*hifz al-'aql*), the soul (*hifz al-nafs*), the descendants (*hifz al-nasl*), and the property (*hifz al-maal*) are the components of Maqasid or goals of Shariah. Due to the implementation of *Maqasid-al-Shariah*, Islamic microfinance organisations differ from conventional microfinance companies. According to [Rohman et al. \(2021\)](#), an Islamic Microfinance Institution (IMFI) is made in a way that complies with *Shariah* to benefit the greater community.

2. Literature Review

2.1 Microfinance and Islamic Microfinance

To narrow the gap between the poor and the rich, Allah *Subhanahu wa Ta'la* (SWT) has emphasised the importance of sharing wealth, as He said in the Holy Quran (70: 24-25). To aid the less fortunate, Muslims are

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asked to give to organisations like Zakat and Waqf (Nabi et al., 2017). Islam genuinely encourages economic empowerment through capacity building, providing for the needs of the impoverished, and converting idle assets into income-generating assets.

Traditional microfinance programmes often give small loans on a short-term basis. These programmes also guarantee prompt distribution of follow-up loans when prior loans are repaid on time, simple service scheduling and delivery, and streamlined investment and borrower appraisal. In most cases, microfinance providers work to ensure that the loan money reaches people who are experiencing severe hardship and poverty. According to Gallenstein et al. (2020), the shared responsibility model, which employs group financing to handle problems like the selection of unfavourable borrowers and promote the right kind of borrowers, is the foundation for microfinance.

The microfinance system, particularly the increasingly popular microcredit system, stands apart in different countries for a number of reasons. Due to its distinct method of handling collateral, which is based on joint liability, it differs from normal financial systems. People begin to organise small groups and submit small loan applications. The microfinance companies will describe the requirements for obtaining loans and how those loans must be repaid. All of the group's members share the risks or duties for these loan repayments. Every member of the group makes an effort to help the member who is in default make timely loan repayments. Delinquency and default-related risks may be reduced as a result (Muhammad, 2022).

However, according to by Nabi et al. (2017) when compared to its conventional counterpart, Islamic microfinance (IMF) offers a number of unique characteristics. Islamic principles, for instance, are at the core of Islamic microfinance, which presents a superior solution for eradicating poverty via the advancement of social justice and human potential. Islamic microfinance provides better solutions in terms of both economic and social issues. On the other hand, the traditional microfinance system frequently fails to help the poor escape the debt cycle, and as a result, they are unable to significantly better their economic circumstances.

As highlighted by Imam As Shatibi, “every human being who wants to live a happy life both in the world and in the hereafter, must fulfill 5 (five) basic goals of Maqasid-al-shariah, namely: protecting religion (al-deen), life and soul (nafs), and intellect or mind (aql), family or ancestors (nasl) and wealth or wealth (maal)” (Bahri et al., 2019).

The Higher Objectives of Shariah, also known as *Maqasid al-Shariah*, are a clear priority of the *Shariah* but are nevertheless occasionally overlooked. *Shariah's* essential principles are generally concerned with the welfare of both individuals and the community, and the law is intended to safeguard these advantages and to make it easier to raise standards of living. According to another definition, *maqasid* is the propensity to have qualities of constancy and permanence. It may be the main goal of *maslaha* and is in a class by itself. In addition to drawing individuals toward benefits and keeping them away from harm, *Maqasid-al-Shariah* includes these concepts. The *Shariah* has supported and established *maqasid* as the ultimate objective that looks for repercussions and meanings. *Maqasid* is the ultimate objective that continuously strives to realise, materialise, and attain the implications and meanings that the *Shariah* has defended and created via its rules at all times and places (Awang et al., 2014).

According to Abdullahi et al. (2022) Islamic microfinance is the provision of financial services to low-income individuals in conformity with Islamic *Shariah*. It bases its operations on “Islamic law, which opposes dealing in interests, avoiding *gharar* (ambiguity), participating in risk-sharing activities, and ensuring the welfare of all members of society” (Abdullahi et al., 2022). This makes it the “Shariah-compliant method of distributing money to those rejected by the regular financial institutions, to help them start up microenterprises or sustain their existing businesses” (Hassan, 2015). Islamic microfinance additionally promotes social inclusion in addition to financial inclusion through the use of the complementary tools of loan and zakat (Abdullahi et al., 2022).

Key components of Islamic microfinance include contracts that adhere to *Shariah* law, avoiding debt, charitable giving, economic empowerment, teamwork and solidarity, family unity, and freedom from *Gharar* (uncertainty) and *Riba* (interest). By utilizing Islamic microfinance, low-income people can boost their income, accumulate assets, and shield themselves from outside shocks. A great deal of unfortunate and impoverished people is also unable to obtain financial assistance or credit from traditional financial organisations or banks because of their unique needs, which include land and wealth, collateral, and so forth. These obstacles may be addressed with the aid of the Islamic microfinance system (Fianto et al., 2018).

The majority of Muslims frequently choose to avoid standard microfinance services, notably microcredit,

due to religious requirements, according to [Cameron et al. \(2021\)](#). Due to the ban of riba and the fact that Shariah law favours risk sharing between lenders and borrowers under the profit-sharing principle, in their opinion, both giving and receiving interest-bearing loans are generally regarded to contravene its principles. While borrowers are exposed to the risk of unpredictable returns, typical microcredit contracts are structured to give the microfinance organisation a guaranteed return on each contract ([Cameron et al., 2021](#)). For this reason, many religious people are often interested in using Islamic microfinance products ([Muhammad et al., 2023](#)).

2.2 Islamic Microfinance in Different Countries

Islamic microfinance institutions (IMFIs) have expanded quickly in recent decades in a number of nations with a majority of Muslims. For instance, Malaysia offers its residents, especially women, microfinance products in a variety of sectors so they can start their own microbusinesses. In this nation, efforts have been made to use microfinance to give all citizens the chance to participate in the formal financial system. In Malaysia, a large number of conventional and Islamic financial institutions, including Amanah Ikhtiar Malaysia (AIM), EONCap Islamic Bank, Bank Simpanan Nasional, CIMB Islamic Bank, Agro Bank, and Bank Rakyat, among others, are now providing microfinance services ([Ibrahim et al., 2016](#)).

As found by [Haque et al. \(2021\)](#) through a survey involving 381 AIM borrowers from Terengganu, Pahang, and Kelantan, the AIM microfinance program has improved the borrowers' freedom in making decisions overall and had a favourable impact on their social, economic, and household empowerment. Moreover, AIM and other IMFIs in Malaysia take seriously the importance of spirituality and religion within their community, as noted by [Amran et al. \(2014\)](#). For instance, in order to receive Allah SWT's blessings, the weekly gatherings of all AIM centres in Malaysia begin with *Salawat*, *dua*, and *zikr*.

Bangladesh's Islamic microfinance industry is still relatively young because the country's biggest microlenders have not yet begun enforcing Islamic *Shariah* ([Nabi et al., 2017](#)). However, despite the fact that some financial institutions in Bangladesh, such as Islami Bank Bangladesh Limited (IBBL), have created initiatives like the Rural Development Scheme (RDS), their involvement in Islamic microfinance is negligible, as argued by [Hossain and Abdullah \(2018\)](#). Different other Islamic banks and conventional banks' Islamic windows have not been as aggressive in promoting Islamic microfinance products because they have not yet begun implementing rural-targeted IBBL-style programmes ([Nabi et al., 2017](#)). Islamic microfinance is still in its infancy in Bangladesh due to all of these factors ([Muhammad et al., 2022](#)).

Muslim Aid Bangladesh is another prominent player in the Islamic microfinance sector. It is a globally recognised organisation that has been functioning in this country since 2004. To provide microcredit facilities to its customers, this IMFI uses public donations, subsidized money from multilateral organizations like the Islamic Development Bank (IsDB), as well as from regional commercial banks ([Uddin & Mohiuddin, 2020](#)). The profit rate that Muslim Aid charges for its SME credit product, called "*bai-muajjal*" is approximately 13%. For Qard, or cash financing for individuals and microbusinesses, the service price is approximately 12% ([Uddin & Mohiuddin, 2020](#)). This rate, however, is about 10% for RDS ([Uddin & Mohiuddin, 2020](#)). Additionally, [Uddin and Mohiuddin \(2020\)](#) found that over 98% of loans are repaid for RDS and Muslim Aid. However, Islamic microfinance is not significantly impacted by IMFIs like Muslim Aid and RDS ([Hossain & Abdullah, 2018](#)). The RDS of IBBL and other successful programs have not been developed by other Islamic banks or the Islamic branches of conventional banks, nor have they been able to effectively promote Islamic microfinance products. All these reasons mean that Islamic microfinance in Bangladesh is still relatively new.

Muslim households in rural Indonesia can choose from a wide range of goods provided by several Islamic microfinance organisations (MFIs). With the goal of assisting the disadvantaged in overcoming poverty and raising their standard of living, these MFIs provide financial aid to the underprivileged ([Fianto et al., 2018](#)). Moreover, Islamic microfinance has successfully increased people's income levels in Indonesia. Additionally, it has become simpler for Indonesia, a nation with a majority of Muslims, to adopt Islamic microfinance principles, such as refraining from employing interest. The organisation in charge of regulating these issues is the Indonesian National Shariah Board ([Fianto et al., 2018](#)). In addition, there are many Islamic microfinance models in nations including Pakistan, Nigeria, Sudan, Egypt, and Turkey ([Mukhlisin et al., 2020](#)).

[Jimoh et al. \(2024\)](#) investigated how the Islamic microfinance system affects attempts to eliminate poverty in Kwara State, Nigeria. The study primarily examined how low-income and small business owners in Kwara State's incomes and productivity were affected by charity, microcredit, and microequity. The findings showed

that the microcredit, microequity, and charity products of the Islamic microfinance system were positively correlated with income levels. The factors also significantly impacted efforts to combat poverty in Kwara State, Nigeria. Based on the findings, the research concluded that microcredit products, microequity, and charity (social finance) had a significant impact on lowering poverty in Kwara State, Nigeria. An adequate quantity of shariah-compliant microcredit, microequity, and charitable financial resources, such as *mudarabah*, *murabahah*, *zakat*, *musharaka*, and *sadaqa*, were also recommended in the report. This will raise the productivity and income levels of low-income workers and small business owners in the State.

2.3 Islamic Microfinance for Poverty Alleviation

Islamic microfinance programmes are linked to investments with a social conscience, in which the money of investors is only used for Halal endeavours that advance society as a whole. *Waqf*, *zakat*, and other forms of investment are frequently used in these programmes. In the end, these activities help close the wealth gap and reduce poverty (Dhaoui, 2015).

Ahamad et al. (2016) concluded in their study that the Islamic microfinance programme is definitely raising the standard of living for the underprivileged in Bangladesh. They discovered through their research that Muslim Aid Bangladesh (MAB) had raised borrower income and expenditure. Impressively, 94 percent of the respondents said they had seen an improvement in their income as a result of getting the loan. Additionally, the respondents' overall food consumption has increased. The authors discovered a similar outcome in regard to the increase in borrowers' income and spending.

Aslam (2014) found that Islamic microfinance increased borrowers' daily income by \$3 per capita and found similar results for Pakistan. Khan and Sulaiman (2015) also showed that Pakistani clients' income somewhat increased after signing up for the IMF programme. Additionally, they came to the conclusion that the severely poor population does not benefit from conventional microfinance. They also asserted that the participants' monthly income and food expenditure have both increased significantly as a result of borrowing from an IMFI.

2.4 The Concept of *Maqasid-al-Shariah*

Al-Khadimi asserts that whereas *Shariah* is the source of soul life and happiness that can contribute to the world and world security, *maqasid* is the mean and purpose. This interpretation is consistent with what Ar-Raisuni reveals, according to which the definition of *Maqasid-al-Shariah* is the goal set forth by Islamic law for the good of humankind (Bahri et al., 2019). Syed Nawab Naqvy makes it clear that the aim of *Maqasid al-Shariah* is *maslahat*, which is essentially anything that does not contravene *Shariah* law (Bahri et al., 2019).

According to *Maqasid*, the Islamic system bases its rationale on enhancing human welfare as opposed to the Western culture's profit-driven goal. This sophisticated welfare system is yet another example of how to strike the right balance and guarantee ethical primacy for all stakeholders based on equity, trust, and excellence. It is possible to picture Islamic welfare maximisation when inner self-development is only possible with a well-coordinated, intensive effort. In exchange, society gains from the fair distribution system and environmental enrichment, or, to put it simply, safety for the environment at a harmonious level. This moral, effective, and value-based approach has the power to create true social harmony. The supporters of *Maqasid* and sustainable development may benefit equally from this shared understanding.

Maidawa et al. (2024) opined that Muslim scholars primarily employ the *Maqasid al-Shariah* to select and ascertain the favoured viewpoint to be followed (*tarjih*). *Maqasid al-Shariah* has a broader purpose and significance since it can serve as a useful framework for the growth of an Islamic state by ensuring that its social, political, and economic policies adhere to *Shariah* principles. The Islamic teachings propose that positive qualities be promoted in all fields of human activity using *Maqasid al-Shariah*. Researched by Muslim scholars (*mujtahid*) from the *shariah* books, *Maqasid al-Shariah* carries the meaning of values and meanings that are made the goal and want to be achieved by Allah SWT behind *shariah* and law. In order for succeeding generations to comprehend and expand upon the knowledge of *Maqasid al-Shariah*, it was Al-Shatibi who was the first scholar to properly compile and revitalize the discipline. In the same way, *Maqasid al-Shariah* experts Izzuddin ibn Abdul Salam and Muhammad Tahir ibn Ashur have long been cited. Without a doubt, these three influential people in the field of *Maqasid al-Shariah* have made a significant contribution to researchers today.

3. Research Methodology

In this study, a narrative literature review approach was used, where information is presented in a narrative format. According to Byrne (2016), narrative reviews “offer breadth of literature coverage and flexibility to deal with evolving knowledge and concepts”. 34 peer-reviewed articles published in various peer-reviewed journals were gathered and examined to get the essential information. The search terms included ‘Microfinance’, ‘Islamic Microfinance’, ‘Maqasid-al-Shariah’, and ‘Maqasid-al-Shariah in Islamic Microfinance’.

The inclusion and exclusion criteria regarding the selection of research papers are listed in Table 1:

Table 1: Inclusion and Exclusion Criteria

Included	Excluded
Articles published between 2014-2024	Published before 2014
Written in English	Written in other languages
Full Text	Full text not available
Topics covering Islamic Microfinance and Maqasid-al-Shariah	Topics avoiding Islamic Microfinance and Maqasid-al-Shariah

4. Results and Discussion

4.1. Results Presentation

The following Table 2 lists the 36 papers used as the source of information for this article:

Table 2: List of Source Papers

Paper no.	Name of the Authors (Years of Publication)	Title of the Paper	Book/ Journal/ Conference Proceedings	Type of Study
1.	Abdullahi, A., Othman, A. H. A., & Kassim, S. H. (2022).	Promoting the Adoption of Islamic Microfinance in Nigeria: The Moderating Role of Religiosity.	<i>Proceedings of the International Conference on Business and Technology</i>	Mixed-Method Study
2.	Ahamad, S., Bakar, R., & Lubis, Z. (2016).	Economic impact of MAB microfinance program on borrowers household: Evidence from rural area of Bangladesh.	<i>International Journal of Economics, Finance and Management Sciences</i>	Quantitative Analysis
3.	Alam, M. M., Hassan, S., & Said, J. (2015).	Performance of Islamic microcredit in perspective of Maqasid Al-Shariah: A case study on Amanah Ikhtiar Malaysia.	<i>Humanomics</i>	Mixed-Method Study
4.	Alkhan, A. M., & Hassan, M. K. (2021).	Does Islamic microfinance serve maqāsid al-shari'a?	<i>Borsa Istanbul Review</i>	Quantitative Analysis
5.	Amran, A. M., Rahman, R. A., Yusof, S. N. S., & Mohamed, I. S. (2014).	The current practice of Islamic microfinance institutions' accounting information system via the implementation of mobile banking.	<i>Procedia-Social and Behavioral Sciences</i>	Qualitative Analysis
6.	Awang, M. D., Asutay, M., & Jusoh, M. K. A. (2014).	Understanding of Maslaha and Maqasid al-Shariah concepts on Islamic banking operations in Malaysia.	<i>Proceedings of the International conference of global Islamic studies.</i>	Qualitative Analysis

Paper no.	Name of the Authors (Years of Publication)	Title of the Paper	Book/ Journal/ Conference Proceedings	Type of Study
7.	Bahri, E. S., Aslam, M. M. A., Hasan, A. A. H., & Wibowo, H. (2019).	Maqasid al-shariah in micro-entrepreneurs development: An overview.	<i>Proceedings of the Indonesian Conference of Zakat</i>	Qualitative Analysis
8.	Cameron, A., Oak, M., & Shan, Y. (2021).	Peer monitoring and Islamic microfinance.	<i>Journal of Economic Behavior & Organization</i>	Qualitative Analysis
9.	Dhaoui, E. (2015).	The role of Islamic microfinance in poverty alleviation: Lessons from Bangladesh experience.	MPRA	Qualitative Analysis
10.	Fianto, B. A., Gan, C., Hu, B., & Roudaki, J. (2018).	Equity financing and debt-based financing: Evidence from Islamic microfinance institutions in Indonesia.	Pacific-Basin Finance Journal	Mixed-Method Study
11.	Gallenstein, R. A., Flatnes, J. E., & Sam, A. G. (2020).	The Role of Social Capital in Risk-Taking Decisions under Joint Liability Lending.	<i>The Journal of Development Studies</i>	Quantitative Analysis
12.	Haque, T., Siwar, C., Ghazali, R., Said, J., & Bhuiyan, A. B. (2021).	The contribution of non-conventional Microfinancing on economic, social and household empowerment of women borrowers in Malaysia.	<i>The Journal of Asian Finance, Economics</i>	Quantitative Analysis
13.	Hassan, A. (2015).	Financial inclusion of the poor: from microcredit to Islamic microfinancial services.	<i>Humanomics</i>	Qualitative Analysis
14.	Hossain, B., & Abdullah, M. F. (2018).	The Growth and Contemporary Challenges of Islamic Microfinance in Bangladesh.	<i>Asian People Journal (APJ)</i>	Qualitative Analysis
15.	Ibrahim, S. N., Kamaruddin, N. I., & Daud, S. (2016).	Assessing the determinants of profitability performance on Islamic microfinance in Malaysia.	<i>Journal of Economics, Business and Management</i>	Quantitative Analysis
16.	Ishak, M. S. I., & Asni, F. (2020).	The role of maqasid al-Shari'ah in applying fiqh muamalat into modern Islamic banking in Malaysia.	<i>Journal of Islamic Accounting and Business Research</i>	Qualitative Analysis
17.	Jaffar, M. A., & Musa, R. (2014).	Determinants of attitude towards Islamic financing among halal-certified micro and SMEs: A preliminary investigation.	<i>Procedia-Social and Behavioral Sciences</i>	Quantitative Analysis
18.	Jimoh, A., Bamigbade, D., & Kolawole, K. (2024).	Islamic microfinance as a panacea for poverty alleviation.	<i>European Journal of Islamic Finance</i>	Quantitative Analysis

Paper no.	Name of the Authors (Years of Publication)	Title of the Paper	Book/ Journal/ Conference Proceedings	Type of Study
19.	Kaleem, A., & Ahmed, S. (2014).	The Quran and poverty alleviation: A theoretical model for charity-based Islamic microfinance institutions (MFIs).	<i>Nonprofit and Voluntary Sector Quarterly</i>	Qualitative Analysis
20.	Khan, Z., & Sulaiman, J. (2015).	<i>Does microcredit help the poor and financially marginalized communities? Experience of Pakistan</i>	Springer Singapore	Quantitative Analysis
21.	Mahmood, H., Hassan, R., & Salman, S. A. (2019).	A survey on awareness and knowledge of Islamic microfinance in India.	<i>International Journal of Physical and Social Science</i>	Quantitative Analysis
22.	Maidawa, I., & Gokaru, S. U. (2024).	The Contributions of Al-Shatibi, Izzuddin ibn Abdul Salam and ibn Ashur on Maqasid Al-Shariah: An Exploration.	<i>Jurnal Usuluddin</i>	Qualitative Analysis
23.	Maikabara, A. A., Aderemi, A. M., & Maulida, S. (2020).	Investigating the viability of the charity-based model of Islamic microfinance for eradicating the impact of Covid-19 on social wellbeing in Nigeria: A descriptive analysis.	<i>Journal of Islamic Economics Perspectives</i>	Quantitative Analysis
24.	Miah, M. D., & Suzuki, Y. (2020).	Murabaha syndrome of Islamic banks: a paradox or product of the system?	<i>Journal of Islamic Accounting and Business Research</i>	Qualitative Analysis
25.	Mohamed, E. F., & Fauziyyah, N. E. (2020).	Islamic microfinance for poverty alleviation: a systematic literature review.	<i>International Journal of Economics, Management and Accounting</i>	Qualitative Analysis
26.	Muhammad, N. M. (2022).	Why Bangladesh is falling behind in implementing Islamic microfinance system? A systematic literature review.	<i>KQT eJurnal</i>	Qualitative Analysis
27.	Muhammad, N. M., Kassim, S., Mahadi, N. F., & Ali, E. R. A. E. (2022).	An Analysis of the Joint Liability Model in Bangladesh: Lessons for the Islamic Microfinance Institutions.	<i>Journal of Islamic Finance</i>	Qualitative Analysis
28.	Muhammad, N. M., Kassim, S. B., Mahadi, N. F. B., & Ali, E. R. A. B. E. (2023).	Role of Islamic Microfinance in Enhancing Financial Inclusion in Bangladesh: A Systematic Literature Review.	<i>Islamic Sustainable Finance, Law and Innovation: Opportunities and Challenges</i> . Springer, Cham.	Qualitative Analysis

Paper no.	Name of the Authors (Years of Publication)	Title of the Paper	Book/ Journal/ Conference Proceedings	Type of Study
29.	Mukhlisin, M., Tamanni, L., Azid, T., & Mustafida, R. (2020).	Contribution of Islamic Microfinance Studies in Achieving Sustainable Development Goals.	<i>Enhancing Financial Inclusion through Islamic Finance</i>	Qualitative Analysis
30.	Nabi, M. G., Islam, M. A., Bakar, R., & Nabi, R. (2017).	Islamic microfinance as a tool of financial inclusion in Bangladesh.	<i>Journal of Islamic Economics, Banking and Finance</i>	Qualitative Analysis
31.	Rohman, P. S., Fianto, B. A., Shah, S. A. A., Kayani, U. N., Suprayogi, N., & Supriani, I. (2021).	A review on literature of Islamic microfinance from 2010-2020: lesson for practitioners and future directions.	<i>Heliyon</i>	Qualitative Analysis
32.	Rulindo, R., & Pramanik, A. H. (2013).	Finding a way to enhance impact of Islamic microfinance: The role of spiritual and religious enhancement programmes.	<i>Developing Country Studies</i>	Qualitative Analysis
33.	Uddin, T. A., & Mohiuddin, M. F. (2020).	Islamic social finance in Bangladesh: Challenges and opportunities of the institutional and regulatory landscape	<i>Law and Development Review</i>	Qualitative Analysis
34.	Wijaya, I. F., Hakim, A. R., Saputro, N., & Mulyadi, M. (2020).	Religiosity level and saving decisions in Baitul maal wat tamwil: The case of Indonesia.	<i>Journal of Islamic Marketing</i>	Mixed-Method Study

4.2 Significance of Maqasid-al-Shariah in Islamic Microfinance

Allah SWT has emphasised the importance of sharing wealth to minimise the gap between the rich and the poor. For instance, Allah declared in the Holy Quran that "*the right of the [needy] petitioner and the deprived were [granted] from their properties*" (70:24-25).

Another famous hadith stated in the Book of Sunan Abu Dawood, as reported by Anas ibn Malik (Mahmood et al., 2019):

"A man from the Ansar came to the Prophet peace and blessings be upon him and begged from him. The Prophet said, "Have you nothing in your house?" The man said, "Yes, a piece of cloth, a part of which we wear and a part of which we spread on the ground, and a wooden bowl from which we drink water." The Prophet said, "Bring them to me." The man brought these articles to him and the Prophet took them in his hands, and he said, "Who will buy these?" Someone said, "I will buy them for one coin." The Prophet said twice or thrice, "Who will offer more than one coin?" Someone said, "I will buy them for two coins." He sold them for two coins and the Prophet said, "Buy food with one of them and give it to your family. Buy an axe and bring it to me." The man brought it to him. The Prophet fixed a handle on it with his own hands and he said, "Go gather firewood and sell it, and do not let me see you for a fortnight." The man went away and gathered firewood and sold it. When he had earned ten coins, he came and bought a garment and food. The Prophet said, "This is better for you than for begging to come as a blemish on your face on the Day of Resurrection. Begging is appropriate only for three people: one in severe poverty, one in severe debt, and one who must pay a difficult compensation."

This well-known hadith not only highlights the importance of assisting the "*below-poverty-line sector*" in becoming self-sufficient, but it also demonstrates how to create a successful microfinance programme while

keeping in mind the key ideas and elements of a poverty-reduction strategy (Mahmood et al., 2019). Muslims are urged to distribute their income to the needy through several channels, such as Zakat and Waqf. Islam encourages economic empowerment by generating money from idle assets, developing capacity, and meeting the needs of the underprivileged.

Alkhan and Hassan (2021) discovered through empirical research that Islamic microfinance supports these essential Maqasid al-Shariah elements:

- i) economic development,
- ii) wealth circulation and distribution
- iii) reducing poverty,
- iv) protecting social welfare; and
- v) raising society's intellectual standards.

Application of the Maqasid al-Shariah concept at IMFIs is believed to aid IMFIs in operating more sensibly, in a more balanced manner, paying attention to the needs of the poor while adhering to Islamic *Shariah* principles (Rohman et al., 2021). Ishak and Asni (2020) came to the conclusion that by using an exploratory qualitative technique that IMFI practices should make reference to the Maqasid in order to simplify life for the neighbourhood while still adhering to *Shariah*. For instance, it is believed that when implemented by an IMFI, the profit-sharing financing strategy will benefit the poor more and will be more in line with Maqasid al-Shariah (Miah & Suzuki, 2020).

The Islamic microfinance system does not frequently overlook the hardcore poor, in contrast to conventional microfinance projects. The researchers claim that Islamic microfinance is accessible in a number of forms and structures to address various demands and levels of poverty, including the very poor (Mohamed & Fauziyyah, 2020). The study by Mohamed and Fauziyyah (2020) also concluded that Islamic microfinance is one of the best poverty alleviation instruments, especially in Muslim society.

According to Maikabara et al. (2020), Islamic microfinance is an ethical financial institution that focuses on low-income earners, unbanked individuals, and small businesses that aren't qualified for loans from traditional commercial banks or microfinance banks because they don't have enough creditworthiness. All groups are financially included in Islamic microfinance programmes according to their demographic characteristics, which include age, gender, marital status, region, occupation, religion, and monthly income. Regardless of race or religious affiliation, Islamic microfinance generally benefits all parts of society, and it is crucial to emphasise this. Notably, numerous studies conducted on specific geographical regions in Nigeria have shown the significant impact and prospects of Islamic microfinance on socioeconomic development in Nigeria as it has contributed to the eradication of poverty and improved household income, children's education, the standard of living of the household, as well as the possibility of creating jobs (Maikabara et al., 2020).

Islamic microfinance also aims to concentrate on *Maqasid al-Shariah*, which encourages social justice and welfare. Additionally, it respects Islamic moral standards such as sincerity, cooperation, *amanah*, toleration, justice, and diligence (Mohamed & Fauziyyah, 2020). To maximise the benefits of Islamic microfinance, however, Rulindo and Pramanik (2013) pointed out that programmes for spiritual and religious development are required. Rulindo and Pramanik (2013) discovered that having a greater spirituality level generally can generate more income, while having a higher level of religiosity may improve clients' economic success. These results suggest that programmes for spiritual and religious development must be implemented in the capacity building services offered to clients by Islamic microfinance organisations.

Wijaya et al. (2020) focused on Islamic microfinance institutions [Baitul Maal wat Tamwil (BMT)] in Sukoharjo and Surakarta, Indonesia, in order to examine the relationship between religiosity degree and explanations for saving money. The authors looked at the level of religiosity and the reasons underlying transactions in both BMTs and conventional banking. The results of this study showed that consumers pick sharia microfinance products because they follow *Shariah* principles in their operations. Similar results were found in a survey conducted by Jaffar and Musa (2014), which revealed that 58 percent of those who used Islamic microfinance-based financing cited their confidence that Islamic finance will advance society and be more effective than conventional financing as their driving force. As a result, a strong sense of religion can affect how people feel about Islamic microfinance.

A further accomplishment of *Maqasid al-shariah* is the development of microentrepreneurs through the use of Islamic microfinance. In a company setting, ensuring societal and human advantages comes before maximising profit. *Maqasid-Al- Shariah's* primary goal is *maslahat*, which is the same as Islamic microfinance

initiatives. Benefits and blessings make up *Maslahat*'s two fundamental components. The performance of microentrepreneurs will ultimately be impacted by the use of Islamic microcredits as working capital, which will assist in capacity building, mentoring, and spiritual counselling.

According to Alam et al. (2015), more than 80% of the borrowers who participated in Amanah Ikhtiar Malaysia's (AIM) Islamic microfinance programme reported that their indicators for *Ad-Din*, *Al-Nafs*, *Al-Mal*, and *Al-Nasb* all improved. Compared to the other principles, this programme did not considerably improve the *Al-Aql* indicators.

5. Conclusion and Recommendation

Focusing on *Maqasid al-Shariah*, which encourages social justice and welfare, is a crucial goal of Islamic microfinance. Furthermore, it respects Islamic moral principles including sincerity, cooperation, *amanah*, tolerance, and justice. However, in order to fully benefit from Islamic microfinance, programmes for spiritual and religious development are required. Higher levels of spirituality typically increase income, but higher levels of religion may boost clients' economic performance. These findings imply that Islamic microfinance organisations must incorporate programmes for customers' spiritual and religious growth into the capacity-building services they provide. The results of this study can be significant to the policymakers and Islamic microfinance practitioners who would get some important ideas to integrate the vital concepts of *Maqasid al-Shariah* with those of Islamic microfinance to improve the overall socio-economic conditions of the poor in a successful manner. Eventually, the efforts of integrating *Maqasid al-Shariah* with the concepts of Islamic microfinance can reinforce the values of benevolence and justice by fostering openness, equity, and responsibility.

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