

Analytical Review of Micro Finance in Pakistan in the light of Islamic injunction

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ABSTRACT

Islamic injunctions refer to the principles, rules, and guidelines derived from the core sources of Islamic law: the Qur'an, the Sunnah (traditions of the Prophet Muhammad), and the interpretations by Islamic scholars. These injunctions shape various aspects of life, including financial transactions, to ensure ethical practices that align with Shariah (Islamic law). In the context of finance, several key injunctions are particularly relevant: Prohibition of Riba: Islam strictly prohibits riba, or interest, as it is viewed as exploitative and unjust. Earning profit from money lending is forbidden, promoting instead profit-sharing and risk-taking. Risk-Sharing and Profit-Loss Sharing (PLS): Islamic finance encourages partnerships where both profits and losses are shared. Contracts such as mudarabah (profit-sharing) and musharakah (partnership) are based on mutual risk and benefit, in contrast to interest-based loans. Prohibition of Gharar (Excessive Uncertainty): Transactions involving high uncertainty or speculation are discouraged, as they are seen as unethical and harmful. Contracts in Islamic finance are designed to be clear and transparent, avoiding excessive risk or ambiguity. Asset-Backed Financing: Islamic finance promotes asset-based transactions where real assets back each contract, emphasizing tangible value creation. This requirement aligns with Islamic ethics, which discourage money from being earned solely from money. Prohibition of Haram (Forbidden) Activities: Islamic finance prohibits investing in businesses or activities that are considered unethical or harmful, such as alcohol, gambling, or any other activities against Islamic values. Justice and Fairness: Islamic law emphasizes fairness in all transactions, advocating for transparency, honesty, and the equitable treatment of all parties. This focus is meant to promote social justice and prevent exploitation. In microfinance, these principles shape how Shariah-compliant institutions design their products and services, differentiating Islamic microfinance from conventional models by eliminating interest, focusing on ethical investments, and fostering financial inclusivity that aligns with spiritual values.

Key Words: *Islamic injunction, Riba, Analytical Review, Gharar, Spiritual values.*

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Introduction

Poverty is obvious, it occurs everywhere in the world, and seems to be "... the biggest moral challenge of this century"¹. It called attention from most of government and non-governmental organization to alleviate or at least reduce it in an effective way. In Islamic perspective, poverty is not just observed from material aspect but also from moral/spiritual, thus, any poverty alleviation approach should reflect on both aspects. It might be reasoned that while conventional approach on poverty left the significance of committing to moral/spiritual, Islamic approach has more attention on that aspect. Islam support capacity development building through microenterprises as a way to strengthen the poor and move up from poverty.

Nowadays, some Muslim countries claim that the lack of development they are suffering from is the direct consequence of the colonization that they have endured, during long decades. In fact, this argument seems to be true when we consider the enormous amount of fortune that has been collected by settlers in several Muslim countries. However, even if it is one of the main factors behind those countries' underdevelopment, we believe that many other important reasons are ignored. Among these reasons, one can mention the lack of development schemes that take into account the reality of these countries, namely schemes that correspond to Islamic teachings. In Islam, each person must bring his stone to the edifice, and try to proceed with the available means to contribute to the development of the nation (Ummah) in general and to the development of their country in particular. In order to achieve the development objective, we believe that Muslims have no other choice but to go back to their Islamic values and teachings in this field and stop to blindly import the solutions that have originally been designed for other nations. This incompatibility of imported solutions has caused a waste of time for numerous Muslim countries, in many cases.

How does one go about reducing poverty levels and providing microfinance (MF) in Muslim societies? How does one make a choice between the Islamic model of MF and the MF "best practices" that reflect wisdom and lessons learnt from decades of "real life" MF experiments? The former is normative and largely an untested proposition in the context of a modern economy, notwithstanding a small number of recent experiments. The latter, on other hand, as proponents claim, are well-experimented and well-documented and made widely available among the global MF community. A significant contributor to this exercise has been the Consultative Group to Assist the Poor (CGAP), a multi-donor consortium dedicated to advancing microfinance. CGAP envisions a world in which poor people everywhere enjoy permanent access to a range of financial services that are delivered by different financial service providers through a variety of convenient delivery channels. It is a world where poor and low-income people in developing countries are not viewed as marginal but, rather, as central and legitimate clients of their countries' financial systems. In other words, this vision is about inclusive financial systems, which are the only way to reach large numbers of poor and low-income people. As a way forward to realize this vision, CGAP has come up with a set of key principles of MF that together constitute the essence of "best-practices" MF.

¹Obaidullah, M., 2008b. *Introduction to Islamic Microfinance*. New Delhi: International Institute of Islamic Business and Finance.

These principles broaden the definition of MF from micro-credit to provision of an array of financial services, such as, savings, insurance and remittance as a panacea for the poor and the under-privileged to move out of poverty into a state of increasingly better standard of living. The principles advocate free pricing of the services. They emphasize that access to MF and not cost of MF should be under focus in designing and implementing a poverty alleviation strategy. The strategy should aim at sustainability through a shift from a charity-based donor-dependent approach to a market-based for-profits approach emphasizing systemic efficiency and transparency and restricting use of donor funds to temporary support in the initial stage of an MFI and capacity building. Recent writings advocate use of charity for providing social safety nets for the extremely poor who are un-bankable and therefore, unsaved by the for-profit MFIs. The principles also underscore inclusiveness and integration of MF with the formal financial system.

While poverty eradication remains the cherished goal of Islam and MF "best practices" is there a degree of commonality too in their approaches and strategies to poverty alleviation? Lessons from real-life experiences reflected in the "best practices" MF indicate a dual approach – use of charity as well as "for-profit" microfinance. At the same time, donor funds should complement private capital, not compete with it. The charity-based approach should be restricted to either providing temporary start-up support designed to get an institution to the point where it can tap private funding sources, or devoted to capacity building to take care of the shortage of strong institutions and managers. A charity-based approach is also needed for providing social safety net to the extremely poor and the destitute and therefore, un-bankable.

Sources of Islamic Microfinance Product

The sources of Islamic Microfinance products are:

- Quran
- Sunnah
- *Ijma'a* (Jurist Consensus)
- *Ijtihad & Qiyas* (Analogy)

Quran

All ideas or laws in Islam owe their origin to its holy book – the Quran and the sayings and deeds of its Prophet (peace be upon him) encapsulated in books of Hadith. A saying of the Prophet (peace be upon him) forcefully drives domestic the important message of Islam regarding poverty: "Poverty is almost like disbelief in God." On any other occasion the Prophet (peace be upon him) is reported to have stated "there is no asceticism in Islam". Islam perspectives poverty to be a curse to be eradicated thru effective efforts unlike a few global religions and philosophies that commemorate asceticism. Poverty is in conflict with "enrichment of self (*Nafs*)", that's one of the number one goals (*Maqasid*) of *Shariah*. Islamic jurists have unanimously held the view that it's far the collective duty (*Fard Kifayah*) of a Muslim society to take care of the simple desires of the bad. In truth, in keeping with al-Shatibi, the mentioned Islamic pupil, this is the *raison deter* of society itself.²

² M U Chapra (2008), *The Islamic Vision of Development*, Islamic Research and Training Institute, Islamic Development Bank

Charity

Charity occupies a crucial role inside the Islamic scheme of poverty comfort. The large time period for charity in Islam is *Sadaqa*. When compulsorily mandated on an eligible Muslim, *Sadaqa* is referred to as *Zakah*. While *Sadaqa* consequences in waft of blessings which can be expected to be strong and everlasting (including, thru endowment of a physical assets), it's far referred to as *Sadaqa Jariyah* or *Waqf*.

Zakah is the one among 5 pillars of Islam and rate of *Zakah* is an obligation at the wealth of each Muslim primarily based on clear-cut criteria. Regulations of *Shariah* are pretty clear and complicated in defining the nature of who're liable to pay *Zakah*, at what rate *Zakah* must be paid and who can advantage from *Zakah*. There may be total flexibility with admire to beneficiaries of voluntary *Sadaqa* and *Waqf*.

The number one trouble with a *Zakah* or *Sadaqa*-based totally solution to the assignment of poverty is the issue of sustainability. Finances mobilized through those tools have a tendency to differ once in a while and won't lend themselves to cautious making plans and implementation. In addition, those funds are meant primarily for the extremely poor and characteristic as a safety net for meeting them on the spot and simple wishes. Advantages from *Waqf* assets are of path, intended to glide to the network at huge and also on a sustainable basis.

Debt Avoidance

Islam allows debt. But it recommends debt only as a closing motel and now not as a method to finance one's developing lifestyle needs. Muslims are warned in opposition to extravagance. The holy Quran says:

وَكُلُوا وَاشْرَبُوا وَلَا تُسْرِفُوا إِنَّهُ لَا يُحِبُّ الْمُسْرِفِينَ³.

" Eat and drink, but waste not by excess, for God loveth not the prodigals "

وَأْتِ ذَا الْقُرْبَىٰ حَقَّهُ وَالْمِسْكِينَ وَابْنَ السَّبِيلِ وَلَا تُبَذِّرْ تَبْذِيرًا. إِنَّ الْمُبَذِّرِينَ كَانُوا إِخْوَانَ الشَّيَاطِينِ وَكَانَ الشَّيْطَانُ لِرَبِّهِ كَفُورًا⁴.

"Squander no longer wastefully, sincerely the squanderers are the Satan's brethren."

Idea of Cooperation in Quran

Mutual cooperation and team spirit are a norm vital to Islamic social conduct and collective ethics. The second verse of Surah Al Maida within the holy Quran says:

وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ وَاتَّقُوا اللَّهَ إِنَّ اللَّهَ شَدِيدُ الْعِقَابِ⁵

"Assist one another inside the doing of properly and righteousness. Assist not each other in sin and transgression; however, maintain your duty to Allah"

Family Cohesiveness

Islam offers utmost significance to family as nucleus social institution that plays a chief position in shaping the future of mankind. It also sees a balanced role for men and women in ensuring the financial and social well-being of the own family.

The Quran broadcasts that everyone human beings are created in pair.

³ Surah al-Aeraf: 7:31

⁴ Surah Bani Israel: 17:26-27

⁵ Surah al-Maidah: 5:2

وَمِنْ كُلِّ شَيْءٍ خَلَقْنَا زَوْجَيْنِ لَعَلَّكُمْ تَذَكَّرُونَ⁶

“And the entirety have we created in pairs that you may replicate”.

As stated in advance, the "women best" method to microenterprise development and poverty alleviation is alien to Islamic faith and tradition. The Quran promotes the idea of "circle of relatives empowerment" by using exhorting ladies and men to play their respective roles in seeking financial and social well-being of all participants of the own family.

وَلَا تَتَمَنَّوْا مَا فَضَّلَ اللَّهُ بِهِ بَعْضَكُمْ عَلَى بَعْضٍ لِّلرِّجَالِ نَصِيبٌ مِّمَّا كَتَبْتُوْا وَلِلنِّسَاءِ نَصِيبٌ مِّمَّا كَتَبْنَ وَاسْأَلُوا اللَّهَ مِنْ فَضْلِهِ إِنَّ اللَّهَ كَانَ بِكُلِّ شَيْءٍ عَلِيمًا⁷.

“And covet no longer that wherein Allah has made some of you excel others. Men shall have a proportion of that which they've earned, and girls a percentage of that which they've earned. And ask Allah of his bounty. Truly Allah has the best understanding of all matters”

Shariah Compliance of Contracts

Islamic microfinance products and services are essentially in the nature of contracts. All contracts in *Shariah* must be loose from sure forbidden factors. A brief assessment of applicable norms is supplied below:

Freedom from *Riba*

All types of contracts and transactions must be free from *Riba*. The holy Quran publicizes:

وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا⁸

Allah has approved trade and forbidden *Riba*.

يَمْحَقُ اللَّهُ الرِّبَا وَيُرْبِي الصَّدَقَاتِ وَاللَّهُ لَا يُحِبُّ كُلَّ كَفَّارٍ أَثِيمٍ⁹.

O, Allah will deprive *Riba* of all blessing, but will provide increase for deeds of charity: and Allah does not love the ungrateful and unjust.

يَا أَيُّهَا الَّذِينَ آمَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنْتُمْ مُؤْمِنِينَ¹⁰.

O, believers worry Allah and forgo the business that owes, if you truly trust.

فَإِن لَّمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ وَإِن تُبْتُمْ فَلَكُمْ رُؤُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ¹¹.

O, if you do not, watch out for struggle at the part of Allah and His Apostle. But in case you repent, you shall preserve your principal. Oppress none and nobody will oppress you.

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُّضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ¹².

O Muslims Do not devour *Riba*, doubling and redoubling it and fear (the punishment) of Allah that you will be a hit.

⁶Surah al-Hashr: 51:49

⁷Surah al-Nisaa: 4:32

⁸Surah al-Baqarah: 2:275

⁹Surah al-Baqarah: 2:276

¹⁰ Surah al-Baqarah: 2:278

¹¹ Surah al-Baqarah: 2:279

¹² Surah al-Nisaa: 3:130

وَمَا آتَيْتُمْ مِّن رِّبَا لِّيَرْبُوَ فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُوا عِنْدَ اللَّهِ وَمَا آتَيْتُمْ مِّن زَكَاةٍ تُرِيدُونَ وَجْهَ اللَّهِ فَأُولَئِكَ هُمُ
الْمُضْعِفُونَ¹³

O What you offer with the prospect of an increase through the property of (different) humans, will don't have any increase with Allah; but what you supply in alms and charity, searching for the countenance of Allah, (will increase): its miles those who will get a recompense elevated.

The holy Quran pronounces trade to be lawful method of livelihood rather than *Riba* that is forbidden for being oppressive and exploitative. It exhorts believers to shun *Riba* and embody charity. The exact nature of *Riba* has been extensively mentioned in Islamic literature. *Riba* in a mortgage or debt agreement exists while it stipulates an excess in repayment by the borrower. An extra fee that isn't always part of the contract and paid voluntarily by way of the borrower is not *Riba*. There may be a trendy settlement on current business being a shape of the forbidden *Riba*. The presence of business makes most traditional economic contracts unlawful and unacceptable in Islamic microfinance.

Sunnah

Even as Islam strongly encourages charity from the giver's point of view, it seeks to minimize dependence on charity from the beneficiary's point of view and restricts the advantages to go with the flow to the poorest of poor and the destitute, which aren't in a role to generate any profits and wealth.

A famous hadith¹⁴ not best underscores the above, however also demonstrates a way to design and implement an approach of poverty comfort through financial empowerment. The essence of the hadith is broken down into numbered statements which will highlight the key ideas and components of the strategy that follows from the hadith.

A person of the Ansar network got here to the Prophet (ﷺ) and begged from him.

1. He (the Prophet) ﷺ requested: have you nothing in your house? He (the man) spoke back: sure, a bit of cloth, which we wear, or which we spread (on the ground), and a wood bowl from which we drink water.
2. He (the Prophet) ﷺ said: bring them to me. He (the man) then introduced those articles to him and he (the Prophet) ﷺ took them in his hands and requested to the meeting of human beings: Who will purchase these? A man said: I shall buy them for one dirham. He (the Prophet) ﷺ requested twice or three times: Who will provide more than one dirham? Some other man said: I shall purchase them for 2 dirhams.
3. He (the Prophet) ﷺ gave these to him and took the 2 dirhams and, giving them to the man of the Ansar, he (ﷺ) said: buy meals with one in every of them and hand it on your family, and buy an axe and produce it to me.
4. He then brought it to him. The Prophet (ﷺ) constant a cope with on it together with his very own fingers
5. And stated: cross, accumulate firewood and promote it, and do not permit me see you for a fortnight.

¹³ Surah al-Hashr: 30:39

¹⁴ Sunan Abu Dawood, Kitab al-Zakah, Book 9, Number 1637

6. The person went away and gathered firewood and bought it. Whilst he had earned ten dirhams, he came to him and acquired a garment with a number of them and food with the others.

7. The Prophet (ﷺ) then stated: that is higher for you than that begging ought to come as a gap in your face on the Day of Judgment. Begging is right handiest for three humans: one who is in grinding poverty, one who's severely in debt, or one who is answerable for reimbursement and finds it hard to pay.

The components of this hadith can be seen to emphasize the subsequent essential conditions of a hit microfinance programme:

1. **Get entry to the poorest of the poor to the programme:** The Prophet (peace be upon him) changed into the spiritual as well as the political leader of the Muslims and he changed into handy to the bad and the needy at all times for financial and financial assistance;

2. **Cautious assessment of the monetary health of the poor; enquiry combined with empathy;** insistence on contribution and beneficiary stake: Many failed microfinance packages owe their failure to inadequate evaluation of the client's economic condition. Provision of microfinance does no longer stand to reason for someone in need of social safety nets ensuing in the funds being consumed away rather than being invested. The poor are available in disparate categories with varying wishes of consumption and efficient investment and hazard of delinquency and default. Microfinance packages related to indiscriminate investment of the bad, including, most authorities-managed ones are destined to fail. That is one of the cornerstones of microfinance "fine practices" that assert the authorities have to haven't any function in direct or indirect provision of financial services and its position have to be restricted to providing an assisting and allowing surroundings. Insistence on beneficiary stake is of path, a device to lessen moral danger and enhance performance.

3. **Transformation of unproductive property** of the beneficiary into profits-producing ones thru rigorous valuation (on the basis of fee discovery via auction method); involvement of the larger community within the system: often the bad very own excessive-market-fee assets, along with, land in prime metropolis vicinity without being able to derive earnings or enjoy the asset. At the same time as possession of land does offer them with a bulwark against unforeseen adversities, this is an uneconomical and wasteful technique of insurance. What's suitable here's a manner to transform the unproductive asset right into a productive one that would generate profits. The original asset isn't misplaced however converted into a profits-generating one. The charge at which the unique asset is disposed of need to be honest and need to now not take the shape of a distress sale ensuing in lack of value to the seller. Cutting-edge finance theorists locate the auction gadget to be the greenest manner of discovery of the intrinsic well worth or the truthful charge. The involvement of large community inside the poverty relief programme is also particularly desirable for success of the programme. for many contemporaries a success MFIs, the right strategy is to involve grass-root NGOs inside the procedure.

4. **Meeting of primary needs** on a concern basis and investment of the excess in an efficient asset: over again this highlights the want to recall the consumption desires of the customers before awaiting them to create wealth. The realization about the want for a social

safety net and to hyperlink the equal to microfinance at a later level has come simplest lately within the microfinance industry.

5. **Direct involvement of this system** in ability constructing inside the run up to earnings era and technical help to the beneficiary; dedication of pinnacle management of the programme: This part of the hadith demonstrates a completely unique shape of commitment and involvement on the part of the Prophet (peace be upon him) within the software of poverty remedy. The involvement could not be greater direct and the commitment more natural.

6. **Technical help in the shape** of providing needful schooling to the beneficiary for sporting out the marketing strategy/ profits-generating undertaking; monitoring thru a time-bound schedule and impact assessment thru a feed-lower back mechanism: The want to set up an effective linkage among economic help and technical assistance is emphasized amongst microfinance professionals as by no means before. Additionally, the significance of effect evaluation may be infrequently overemphasized.

7. **Transparent accounting** of operational results and liberty to apply part of earnings to fulfil higher needs: Transparency through meticulous accounting and proper documentation is an essential requirement of monetary transactions within the Islamic framework. Because the holy Quran asserts:

يَا أَيُّهَا الَّذِينَ آمَنُوا إِذَا تَدَايَنْتُمْ بِدَيْنٍ إِلَىٰ أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ وَلْيَكْتُب بَيْنَكُمْ كَاتِبٌ بِالْعَدْلِ وَلَا يَأْب كَاتِبٌ أَنْ يَكْتُبَ كَمَا عَلَّمَهُ اللَّهُ فَلْيَكْتُبْ وَلْيُمْلِلِ الَّذِي عَلَيْهِ الْحَقُّ وَلْيَتَّقِ اللَّهَ رَبَّهُ وَلَا بِنَحْسٍ مِنْهُ شَيْئًا فَإِن كَانَ الَّذِي عَلَيْهِ الْحَقُّ سَفِيهًا أَوْ ضَعِيفًا أَوْ لَا يَسْتَطِيعُ أَنْ يُمِلَّ هُوَ فَلْيُمْلِلْ وَلِيُّهُ بِالْعَدْلِ وَاسْتَشْهِدُوا شَهِيدَيْنِ مِنْ رِجَالِكُمْ فَإِن لَّمْ يَكُونَا رَجُلَيْنِ فَرَجُلٌ وَامْرَأَتَانِ مِمَّن تَرْضَوْنَ مِنَ الشُّهَدَاءِ أَن تَضِلَّ إِحْدَاهُمَا فَتُذَكِّرَ إِحْدَاهُمَا الْأُخْرَى وَلَا يَأْب الشُّهَدَاءُ إِذَا مَا دُعُوا وَلَا تَسْأَمُوا أَنْ تَكْتُبُوهُ صَغِيرًا أَوْ كَبِيرًا إِلَىٰ أَجَلِهِ ذَلِكُمْ أَقْسَطُ عِنْدَ اللَّهِ وَأَقْوَمُ لِلشَّهَادَةِ وَأَدْنَىٰ أَلَّا تَرْتَابُوا إِلَّا أَنْ تَكُونَ تِجَارَةً حَاضِرَةً تُدِيرُونَهَا بَيْنَكُمْ فَلَيْسَ عَلَيْكُمْ جُنَاحٌ أَلَّا تَكْتُبُوهَا وَأَشْهِدُوا إِذَا تَبَايَعْتُمْ وَلَا يُضَارَّ كَاتِبٌ وَلَا شَهِيدٌ وَإِنْ تَفَعَّلُوا فَإِنَّهُ فَسُوقٌ بِكُمْ وَاتَّقُوا اللَّهَ وَاعْلَمُوا أَنَّ اللَّهَ بِكُلِّ شَيْءٍ عَلِيمٌ. ¹⁵

“O Believers! Whenever you strike deals with one another for a fixed period, reduce the transaction to writing And the scribe amongst you should write it with justice and should not refuse to write as Allah has taught him to write So he should write (i.e. he should meet the requirements of documentation with utmost honesty, in accordance with the law of the land) And he on whom the liability (i.e. debt) falls should dictate the contents of the contract And he should fear Allah, Who is his Sustainer, and (while writing) he should not diminish anything (from the indebted sum) Then if he who has undertaken the liability is mentally deficient or physically weak or lacks the ability to dictate the contents, his guardian should dictate with fairness And get two witnesses out of your own men But if two men are not available then a man and two women: (they) should be from among those whom you like as witnesses (i.e. consider trustworthy), so that if either of the two women forgets, the other may remind her And the witnesses should not refuse whenever they are called (for evidence) And

¹⁵Surah al-Baqarah: 2:282

do not be weary of writing it down for its term whether the transaction is small or large This documentation by you is more just in the sight of Allah, and makes evidence more solid and nearer to keeping you from doubt, except that if transactions are hand-to-hand which you carry out among yourselves then there is no sin on you if you do not write it down And take witnesses whenever you bargain among yourselves And let no harm be done to either the scribe or the witness, but if you do so, it will be sheer disobedience on your part And keep fearing Allah And Allah grants you knowledge of (principles of mutual dealing) and Allah knows everything well.”

The import and importance of this verse is often now not fully understood. Indeed, loss of proper documentation and accounting via beneficiaries is a main undertaking confronting microfinance. Right accounting and correct size of results of operations or income is a prerequisite for profit sharing based totally mechanisms. They may be no much less vital for lending operations.

Strong Discouragement to Seeking Charity:

Monetary empowerment is the important thing phrase that guidelines out dependence on charity, that is accepted simplest for the poorest of the negative and people overburdened with debt or other obligations without a method of payment in sight.

1. Debt Avidness in Hadith

Muslims also are warned against the dangers of incurring heavy debt. The Prophet Muhammad (ﷺ) used to regularly supplicate “O Allah, I am seeking for shelter with You from sin and heavy debt”. When someone remarked, “how often you are trying to find shelter from heavy debt”, He ﷺ replied, “While a person gets into debt, he speaks and tells lies, and he makes a promise and breaks it” (16).

Muslims are exhorted to pay off their debt in time and keep away from deliberate delays. The Prophet Muhammad (ﷺ) is stated to have said:

“The fine among you are folks who are quality in paying off debt” (Muslim); “Procrastination in repaying money owed via a rich character is injustice” (17).

Another hadith highlights the significance of a purpose to repay in time and in complete. It also warns against obtaining debt that one does now not have the method or purpose to repay. “Whoever contracts a debt intending to repay it, Allah will repay it on his behalf, and whoever contracts a debt proceeding to waste it, Allah will bring him to ruin” (18).

It follows from the above that one may also incur a debt simplest if one is in extreme need for it and additionally with a clear goal and rational expectation about his/her ability to repay in full and in time. From the standpoint of the microfinance institution, the above has a strategic implication. Honestly, an Islamic MFI should chorus from seeking to entrap a client in ever-growing ranges of debt, as may be the case with many contemporary MFIs.

¹⁶Bukhari, 2789/2

¹⁷ Bukhari, 2792/2

¹⁸ Bukhari, 27301/2

2. Idea of Cooperation in Hadith

A hadith by the Prophet (peace be upon him) reinforces the precept of cooperation and mutual assistance. "Believers are to different believers like elements of a shape that tighten and make stronger every different." ⁽¹⁹⁾

Following the above, an Islamic basis can be provided in favour of fairness and partnership-based totally financing rooted in cooperation in comparison to debt-based financing. As highlighted inside the previous segment, Islam discourages debt. While *Shariah*-compliance debt-based totally modes are permissible, equity-based totally modes of financing are clearly desired.

At times group-based totally financing and mutual assure inside the institution, a common characteristic of many successful microfinance experiments is likewise justified on the basis of Islamic ideal of cooperation. It has to be noted but, that group-ensures tied with monetary interests may also soon degenerate into organization tyranny and oppressive conduct by means of economically and socially more potent contributors of the institution, unless institution formation and activity is observed with inculcation of Islamic spirit of harmony, brotherhood and cooperation. This has already led to rethinking amongst a few MFIs about the merits of organization-based financing vis-à-vis financing of individuals sponsored by outside ensures.

In addition, this norm seems to favour cooperation as a precept shaping the organizational structure and seemingly factors to a member-primarily based shape because the favoured choice over different organizational bureaucracy within the Islamic framework. Indeed, *Shariah* students allow coverage simplest whilst it's far based on ideas of mutuality and cooperation. Without proper Islamic cooperative spirit, but, member-based totally groups have a tendency to be characterized by using political manoeuvres and resultant low ranges of professionalism. The concept of cooperation in essence highlights the want to ensure agency-huge good governance regardless of its shape and the significance of looking after rights of all stakeholders.

3. Cooperation (*Muwasaat*)

"*Muwasaat*" approach supporting brethren in Islam and lengthening fabric guide to them. It has a splendid importance in religion due to the purpose that it plays an essential role in the betterment of depressed classes and creates feeling of love among Muslims. it's far taken into consideration as a crucial virtue of every Muslim and brings divine blessings in go back.

When cooperation (*Muwasaat*) breaks down, investment stops and markets stop working — for cooperation involves the expectation that another person (or institution) will perform actions that are beneficial to each other, without having to monitor those actions.

The Qur'an underlines this as:

"... Help (cooperate) one another in Al-Birr and At-Taqwa (virtue, righteousness and piety); but do not help (cooperate) one another in sin and transgression ..." (Qur'an 5:2)

The Prophet ﷺ said:

¹⁹ Muslim, 3624/1

"The relationship between one believer and another is like a structure, parts of which support other parts," and he interlaced his fingers. (Sahih al-Bukhari, 467; Sahih Muslim, 2585)

Hazrat Jaffar-Sadiq (R.A.) stated:

Is seeking nearness to Almighty Allah Through supporting your (Muslim) brothers?²⁰

The Holy Prophet in considered one of his testaments to `Ali Ibn Abi Talib (R.A.) said:

The most commendable are 3 deeds: First is being simply to the humans even towards you. Second, cooperation and fabric assist to (Muslim) brothers. Third, remembrance of Allah in all situations.²¹

Hazrat Ali ibn Abi Talib (R.A.) said:

Supporting the brothers-in-Allah (fellow Muslims) increases sustenance.

Al-Waqidi, the famous historian of al-Mamun's period, narrates: "I had very near pals, certainly one of whom was a *Hashimite*. Truly speak me, we were one spirit in 3 our bodies. As soon as, on the event of `identification (Islamic pageant), i was reduced to poverty. My spouse instructed me that we could face together all of the hardships boldly, but her heart turned into burning for the children. They had been looking at other children sporting new clothes and making jubilant coaching for `identity; whereas their lot changed into worn and torn clothes. She requested me, if feasible, to arrange a little money for purchasing dresses for them.

The Holy Prophet stated:

One that begins his day without worrying (approximately) the affairs of the Muslims is not a Muslim.²²

Hazrat Jaffar as-Sadiq (R.A.) said:

The excellent amongst your folks who are generous and the worst are the misers; one of the maximum preferred deeds is to do appropriate to Muslim brethren and try to fulfil their needs. This deed weakens devil, safeguards against the fire (of Hell) and leads one to Paradise.²³

A person approached the Holy Prophet of Islam and complained of hunger. The Holy Prophet sent someone to the homes of his households but, lamentably, not one of the families had any food.

The Holy Prophet then grew to become to individuals who had been in his presence and requested, "Who can host this man this night?" al-Imam `Ali (R.A) presented his services, took his hand and left for his house.

Then he requested his spouse, Sayyidah Fatimah (R.A.), "What meals do we have?" She spoke back, "a bit provision sufficient for children only." Ali (R.A.) instructed her, "The guest ought to be taken into consideration first earlier than ourselves and the kids." Fatimah (R.A) had to make a first-rate attempt to place her youngsters to sleep due to the fact that they have been hungry. 'Ali, Fatimah and their youngsters fed the visitor for the pleasure of Allah and remained hungry themselves.

Allah praises their sacrifice in these phrases:

²⁰ al-Khisal, via ash-Shaykh as-Saduq, vol. 1, p.8.

²¹ al-Khisal, vol. 1, p. 125

²²al-Kafi, vol. 2, p. 163

²³Amali, ash-Shaykh at-Tusi, vol. 1, p.66

وَالَّذِينَ تَبَوَّؤُوا الدَّارَ وَالْإِيمَانَ مِنْ قَبْلِهِمْ يُحِبُّونَ مَنْ هَاجَرَ إِلَيْهِمْ وَلَا يَجِدُونَ فِي صُدُورِهِمْ حَاجَةً مِمَّا أُوتُوا وَيُؤْتُونَ عَلَى أَنْفُسِهِمْ وَلَوْ كَانَ بِهِمْ خَصَاصَةٌ وَمَنْ يُوقِ شَخْخِ نَفْسِهِ فَأُولَئِكَ هُمُ الْمُفْلِحُونَ.²⁴

. . . And that they give (others) choice over themselves, despite the fact that poverty be their own lot . . .

Of direction, this sort of self-denial isn't possible for every one; and handiest a person likes Ali (R.A.) should perform such deeds. Islam, therefore, does now not compel its followers to do similar deeds.

A Greek remained with Ali (R.A.) for a tremendous period, making inquiries about Islam. As soon as he became convinced of the reality of Islam, he embraced Islam at the arms of Ali (R.A.). Then, Ali (R.A.) informed him approximately his duties as a Muslim. In the course of that discourse, he said:

I direct you to help your brethren who're the followers of Muhammad (peace be upon him and his progeny) and mine, assist them from the wealth which Allah has given you, fulfil their desires, redress their troubles and behave with them, with friendship and love.²⁵

Hazrat Ali ibn Musa (R.A.) stated:

“it is the obligation of a believer closer to another believer to have his love in his heart, to help him along with his wealth, and to stand by using his facet against one that does injustice to him . . . He ought to by no means trouble, misinform, cheat, abandon or backbite him, nor inform a deceive him . . . person who provides a dress to his Muslim brother, Allah will reward him with a gown of paradise; and one who lends money to his Muslim brother for the pleasure of Allah, receives the reward of charity in go back; and one who relieves his spiritual brother from ache and misery, Allah will relieve him of the pain of the subsequent international.”²⁶

4. Ijma'a (Jurist Consensus)

Ijtihad is the independent reasoning by a qualified jurist leading to new legal rules. Such a jurist may, or rather should, use qiyas (²⁷). Ijma'a can also be defined as a source of law is that truth is safe with the community of believers (²⁸). Support is provided by a hadith according to which Muhammad said that ‘my community will never agree on an error’ (Esposito 2003, p. 134). Thus, after Allah and the Prophet, the Muslim community or umma can also be a source of law (²⁹).

Shariah is much wider in scope than the concept of law as understood in the West. *Shariah* law encompasses aspects of belief and religious practice, including rules relating to prayer, fasting, the making of the Haj and giving zakat. It also covers aspects of everyday life such as behaviour towards other people, dietary rules, dress, manners and morals. Lastly, it includes laws relating to crime and evidence, international relations, marriage, divorce and

²⁴Surah al-Hashr: 59:9

²⁵ al-Ihtijaj, at-Tabarsi, vol. 1, p. 354

²⁶ 8. *Biharu 'l- anwar*, vol. seventy-four, pp.232-233

²⁷ Mahmoud A. El-Gamal *Islamic Finance: Law, Economics and Practice* Cambridge University Press, Cambridge, New York. 2006, 221 pp.

²⁸B. G. Cragg ,P. K. Thomas (1964), p.145

²⁹B. G. Cragg ,P. K. Thomas (1964), p.16

inheritance, commercial transactions and many other subjects that would be included under the Western definition of law.

In this scheme of things, the function of Islamic jurisprudence was the formulations of doctrinal principles elaborate enough, and technically sophisticated enough, to draw these disparate strands together in a consistent and logically coherent manner, integrating the social with the religious in a single, united system of law. This was achieved by the end of the tenth century. Thereafter, the efforts of medieval Muslim jurists went into an increasingly elaborate series of doctrinal commentaries which constitute the textual authority of the *Shariah*. The *Shariah* is, pre-eminently, a law of the book — a jurists' law — and this of course always implies a certain degree of artificiality.

5. Ijtihad & Qiyas (Analogy)

Qiyas or analogy is the second important secondary source, or the fourth 'root', of Islamic law. The idea is that, if a ruling is required on a situation not covered in the Quran or the sunnah, a comparison can be made with situations which the Quran or the sunnah did provide for. If, for instance, the Quran prohibits the use of wine, the use of other toxicants, with similar deleterious effects, can be assumed to fall under the prohibition as well ⁽³⁰⁾.

Conclusion

In conclusion, a well-implemented Islamic microfinance system has the potential to provide a sustainable and ethical pathway for poverty alleviation and socioeconomic development in Pakistan. By prioritizing fairness, transparency, and risk-sharing, Islamic microfinance can empower marginalized communities, support small-scale entrepreneurs, and contribute to financial inclusion, aligning economic progress with the spiritual and moral values of Islamic injunctions. The critical and analytical review of microfinancing in Pakistan reveals both the potential and the challenges of aligning financial practices with Islamic injunctions. As conventional microfinance models often rely on interest-based mechanisms, they conflict with the principles of Islamic finance, which prohibits *riba* (interest) and advocates for ethical, risk-sharing partnerships. Islamic microfinance, with its Shariah-compliant alternatives, offers a viable solution that resonates with the ethical and spiritual values of Pakistan's predominantly Muslim population. However, Islamic microfinance in Pakistan faces challenges including limited outreach, operational inefficiencies, regulatory constraints, and a lack of awareness among the target population. Addressing these issues requires a coordinated effort by policymakers, financial institutions, and religious scholars to establish robust regulatory frameworks, increase access, and enhance financial literacy. Moreover, fostering partnerships between conventional microfinance institutions and Islamic finance bodies could help expand the reach and effectiveness of Shariah-compliant products.

³⁰B. G. Cragg, P. K. Thomas (1964), p.145