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Islamic Microfinance as an Alternative for Poverty Alleviation: A Survey

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Abstract

The purpose of this paper is to demonstrate the potential of Islamic Microfinance as an alternative tool for poverty alleviation. While poverty is a common problem faced by all countries, the efforts and actions has not reached the purpose yet. Still, it calls more attention from majority of government and development oriented organization to alleviate it in an effective and comprehensive approach. In Islamic perspective, poverty is not just viewed from material aspect but also moral/spiritual, thus, any poverty alleviation strategy should reflect on both aspects. It might be argued that while conventional approach on poverty left the importance of committing to moral/spiritual, Islamic approach has more attention on that aspect. Islamic microfinance, having a unique feature compare to the conventional counterpart, offers a potential solution to poverty alleviation. The underlying principle of Islamic microfinance is the application of Islamic values to promote social justice for all and to achieve economic development with building human capability as center of attention. Hence, the content of moral and value aspect, emphasizes on the human side and communities responsibility, is likely to be more effective and comprehensive in poverty alleviation.

Keywords: *Islamic, microfinance, shari'ah, poverty alleviation.*

Introduction

Poverty is obvious, it occurs everywhere in the world, and seems to be "… the biggest moral challenge of this century" (Obaidullah, 2008b: 30). It called attention from majority of government and development-

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oriented organisation to alleviate it in an effective and comprehensive approach. In Islamic perspective, poverty is not just viewed from material aspect but also from moral/spiritual, thus, any poverty alleviation strategy should reflect on both aspects. It might be argued that while conventional approach on poverty left the importance of committing to moral/spiritual, Islamic approach has more attention on that aspect. Islam support capacity development building through microenterprises as a way to empower the poor and graduate from poverty. However, they face problems; among others, financial problems seems to be biggest one, therefore the year of 2010 has been renowned as the year of Islamic microfinance, sharing the spirit of helping microenterprises through micro financing.

Given the main problem of the poor is lack of financial access; this paper argues Islamic microfinance offers an alternative solution to poverty alleviation through more human oriented financing. This is due to the underlying principle of Islamic microfinance is the application of Islamic values to promote social justice for all and to achieve economic development with building human capability as centre of attention. Hence, the content of moral and value aspect, emphasizes on the human side and communities responsibility, is likely to be more effective and comprehensive in poverty alleviation. Also, researchers criticised interest based modes in conventional microfinance and finds the problems of "… non graduation from poverty, debt trap, high drop out rate, asymmetric information and economic viability of the project" (Ahmed, 2002: 58). In contrast, some studies find positive impacts of Islamic microfinance both in economic and social aspect. Although there are some weaknesses and problems found in certain location in terms of insufficient regulation and limited assets (Seibel, 2005), however, Islamic microfinance still attractive to be considered.

This paper will explore this area to provide broader overview on this issue, it will be organised as follows: section 2 will discuss about poverty is Islamic perspective, continued by presenting the Islamic microfinance and its nature, model, and strategies in section 3, then leading to performance and economic impact of Islamic microfinance in the next section.

Poverty in Islamic perspective

Poverty, in Islamic perspective, is viewed not just from material side but also moral side, as well being has two sides: material and spiritual, which include mental peace, happiness and social harmony, then to realize it, it imposes justice and human brotherhood, without looking at gender, race, age *etc* (Chapra, 2008: 10, 2007: 6). In this point, Naqvi (2003: 119) points out that poverty has three dimensions, not just economics, but also moral - since it reduce the self respect -, social – because it pull the poor out from society - and political – due to the higher probability to create higher gap between society's social ranks. Islam has definite way to view richness, as the *Hadith* declares that "Richness does not lie in the abundance of worldly goods but richness is richness of the heart itself" (Mannan, 1986: 305). In conventional world view, this spiritual aspect is left behind and not included in the poverty aspect, although the conventional view take account of human aspect, such as freedom of choice, capability, *etc*.

The Islamic concept in economic (*muamalah*) highlights justice as one main point (Qur'an verse 57:25), it strongly emphasizes the importance of 'socio economic justice' and economic system which contain 'moral values' and 'moral filter' (Chapra, 1992: 239, 2007: 6-7). Although the conventional economic development argued it can achieve the goal without moral factor, however they are now admit dedication to 'development with justice' (Chapra, 2007: 7), but he continues to asserts that "…even material development with justice is not possible without moral development." because it "…requires an 'efficient' and equitable use of all resources…" and they cannot be accomplished "…without the injection of a moral dimension into economic pursuit.". This strong statement supports Islamic concept in economic development with the unique positive points offered, namely moral value, distinct from conventional economic development.

Islam persuades against severe inequality and poverty and it has a serious attention in poverty alleviation, *Shari'ah* (*Qur'an* and *hadith*) clearly touch that aspect (Ahmed, 2004: 21). Two verses of Qur'an (QS 7:10 and QS 62:10) and the prophet saying emphasize a personal obligation of a mankind to work and fulfil his needs through a well managed resource on earth, which is provided by Allah as a trust (*amanah*). Other verses of Qur'an (QS 70:24-25) states the importance of sharing the wealth with the needy to avoid large gap between the rich and the poor: "And those in whose wealth is recognised right, For the needy who asks, and him who is prevented (from some reason from asking)" (QS 70:24-25). The word 'right' implies that Islam strongly emphasizes the obligation of the society, particularly the rich, to contribute actively in poverty alleviation in the form of *zakah* and *awqaf* (Ahmed, 2004:22). *Zakah* is the obligation to pay certain amount of wealth to the poor, thus certain amount of the assets of the well-off individuals is expected to be returned to the society with the notion that it is the right of the poor (Ahmed, 2004: 22). On the other hand, *waqf* as an voluntary sector institution is an institutionalised charity aiming to deliver welfare services to the poor, it can be in the form of assets (such as land, building, car etc) or, becoming more commonly now, in cash *waqf*. In addition to the private sector contribution to in alleviating poverty, Siddiqi (1996: 12) emphasized the essential role of state for communal responsibility, as part of the "collective social duty" (*fard kifayah*) to help the poor. This means that poverty alleviation efforts can only achieve the maximum benefits to the poor if the community and the state are involved together actively in helping the needy through well managed pro-poor institutions, MEs empowerment will be one of these.

In more specific of looking at of what the poor needs as the cause of poverty, Obaidullah (2008b: 2-4) points out that they need access to financial services, particularly micro credit, to be able to pay for periodic incidences, urgent situation and investment. Therefore, due to lack of this financial access, they are put on a situation that force them to get a loan from informal market, who usually charge them a very high interest rates, that later on, often put them in the worse condition. Hence, Obaidullah (2008b: 4) argues that "Central to the challenge of ending poverty is creating wealth through development of micro enterprises", which then microfinance comes as an essential contribution to this wealth creation process. Therefore, Islam promotes economic empowerment, includes but not limited, by giving access to what the poor's needs, transformation of idle assets become income generating assets, capacity building, and transparent performance report (Obaidullah, 2008b: 17). Therefore, the concluding remark from Obaidullah (2008b: 23) identifies the comprehensive nature of poverty:

> Islamic approach to poverty alleviation is more inclusive than the conventional one. It provides for the basic condition of sustainable and successful microfinance, blending wealth creation with empathy for the poorest of the poor…also…composite of mission-based and market based interventions…. favors equity-based and cooperation-based models in contrast to mechanism that create and perpetuate debt.

Microfinance, particularly *Shari'ah* financing in micro credit for microenterprises, seems be able to offers a potential to poverty alleviation. Chapra (2008: 36) argues that "In the present-day world, microfinance has proved to have great potential for expanding employment and self-employment opportunities and needs to receive high priority in Muslim countries. Based on the CGAP best practices, Obaidullah (2008b: 11) asserts that "microfinance is a powerful tool to fight poverty".

Islamic microfinance

Microfinance refers to provision of financial services to the poor - more than just small loans, it also includes saving and micro insurance, as household might need credit but also they are able to save – with aim as development tool for its clients (Armendariz and Morduch, 2010: 15; Ledgerwood, 2000: 1). Initiated by Grameen Bank in Bangladesh, microfinance has reached success, however it has also been criticized since more cost to customers seems to be compelled when microfinance are forced to decrease cost and improve transparency (Armendariz and Morduch, 2010: 202). Islamic view also disapprove of this fixed high interest rates charge that get the poor into debt and difficulties (Obaidullah, 2008b: 10), hence, there are cases when the poor suffer the loss of their lands (Ahmed, 2002: 30). Thus, Islamic microfinance offers more feasible solution by offering not debt based approaced, but rather assets based approach.

Given specific characters derived from *Quran* and *hadiths* (saying of the Prophet), Islamic microfinance is provision of financial and non financial services based on Islamic values with aim to promote justice for all. Considering that Islam prefers community-based activities (Qur'an, 5:2), Islamic principles shape the nature of microfinance institutions as they operate under a group-based approach and joint liability. It can, therefore, be argued that the above characteristics seem to cover almost all aspects required by the poor. However, attention should be given to the implementation of the spirit of Islamic microfinance so that it is not just an empty theory; as the gap between the spirit and implementation is rather obvious.

Although Islam permits debt, but debt can only be allowed as the last source of fund (Quran, 7:31; 17: 26-27), and the Prophet advises the dangers of deep debt and he also strongly encourages full and on time repayment (Obaidullah, 2008b: 17). Islam commands mutual cooperation and unity as a fundamental rule (Quran verse 5:2), in this basis, group based financing and mutual guarantee within the group are accepted (Obaidullah, 2008b: 18). All business contracts must be *Shari'ah* compliant, free from *riba* and *gharar* (Obaidullah, 2008b: 19-22). Basically, there is no primary opposition in the global microfinance 'best practices' and the Islamic approach to poverty elimination (Obaidullah, 2008b: 22).

In comparison between Islamic microfinance and the conventional counterpart, both have similarities in terms of focused on economic development and social objective, aim to achieve a better life for whole people, support additional income, promote entrepreneurship, encourage risk sharing, believe that the poor should get involved in entrepreneurship activities (Obaidullah, 2008b: 10). Also, both are expected to rely on providing wider access to the poor, be a sustainable institution which can achieve "market based for profit approach", supported by efficient system and transparency reporting, with the focus on capacity building, combine with integration between microfinance and official financial system (Obaidullah, 2008b: 9-10).

However, the main difference is Islamic approach emphasizes on important points of provision of financing and non-financing services to improve microenterprises, transparency, understanding and cooperation (Obaidullah, 2008b: 10). Specifically, there are some differences as follows:

Table 1: Differences between Conventional and Islamic Microfinance

Category	**Conventional Microfinance**	**Islamic Microfinance**
Category of poor	One category	Two levels: 1. deeply poor who do not need loan but social safety net and charitable fund (*zakah*), 2. moderately poor who will be better of if they obtain credit for running microenterprises
Based of financing	Debt based and interest based approach	Profit and loss sharing (PLS) approach, free of interest (*riba*) and uncertainty (*gharar*)
Approach/target of empowerment	The poor and woman	The poorest and family
Sources of fund	External funds, saving of clients	External funds, saving of clients and Islamic charity fund.
Dealing with default	Group/centre pressure and threats	Group/centre/spouse guarantee, and Islamic ethics.
Social Development Program	Secular	Religious (behaviour, ethics and social

Source: Obaidullah (2008b: 11-12), Ahmed (2002: 41)

Thus, it can be concluded that the above similarities and un-similarities bring them to the same direction but contain different value, meaning and instruments.

The role of microfinance in fulfilling social and development requirements is essential. Asutay (2010: 29) argues that, as part of the whole financial system, IBF has a unique character and it should apply the Islamic values contained in the Islamic Moral Economy (IME). The intention of the IBF should be to achieve both economic and social objectives, and these social objectives cannot be separated from IBF due to its obligation to implement the IME, to achieve "human-centered economic development" (Asutay, 2010: 29). On the other hand, the criticism that IBF is operating in an environment similar to conventional banking and failing to realise its social responsibility cannot be ignored (Asutay, 2010: 25). However, as the objective function of microfinance - to act as a development tool through capacity-building - is aligned with Islamic values, Asutay (2010: 29) suggests that the most suitable method of implementing IME in IBF is by conducting social banking and Islamic microfinance (IMF). Therefore, IMF is considered as a fundamental part of IME and IBF due to its ability to implement the values of IME in reality, hence bringing the idea of development into existence.

In rationalising Islamic version of microfinance, it should be noted that the values and principles determine and essentialise the need to develop Islamic microfinance. In addition, conventional microfinance has been criticised because it is likely to charge its clients high interest rates; this is known as the debt-based approach, as they are dragged into debt (Asutay, 2010: 26). Islamic finance, hence, offers a moral approach through a profit and loss-sharing approach in the form of *musharakah* and *mudarabah* modes of financing (Asutay, 2010: 26) to prevent individual borrowers to be dragged into further debt. As IMF is based on asset-based approach as opposed to a debt-based approach, it is more appropriate for the needs of microenterprises, since their profits from their businesses can be hard to predict.

The providers of Islamic microfinance in micro level can be categorised as: (i) informal (individual such as friends, relatives, neighbours, moneylenders, saving collectors, pawnbroker, traders, processors and input suppliers and group (ROSCAs), (ii) member based-organisation, (iii) NGO, and (iv) formal institution (Obaidullah and Khan, 2008c: 23-24).

The operation of individual informal sector should follow *shariah* rules; only repay the original amount of loan (*qard hasan*), fee based (*ujrat*), *shariah* compliant pawn brokering (*al-rahn*) (Obaidullah and Khan, 2008c: 23). There are some disadvantages of this sector, such as: very high-priced, inflexible, high risk, less apparent, at risk to fail because of corruption, mismanagement and environmental catastrophes (Obaidullah and Khan, 2008c: 24). While member based organisation might include village bank, self-help groups (SHG), credit union, and finance cooperatives, Islamic NGO might include *zakah* and *sadaqah* (charity) based organisation with deeper social objective. Islamic banks fall under category of formal institution, having the most potential to provide inclusive financial system.

Islamic Microfinance provides *Shari'ah* compliant instruments for fund accumulation, financing, and risk management (Obaidullah and Khan, 2008c: 18-22), the following figure summarizes these instruments:

Table 2: *Shar'ah* Compliant Instruments

Shariah Instrument	Forms
Fund accumulation	a. charity (*zakah*, *sadaqah*, *awkaf*, gift that include *hiba* and *tabarru*) b. deposits (*wadiah*, *qard hasan* and *mudarabah*), c. equity (*musharakah*)
Financing	a. profit and loss sharing (PLS) (e.g. *mudarabah*, *musyarakah*), b. sale based mode (*murabahah*), c. lease-based modes (*ijarah*), d. caring loans (*qarn hasan*).
Risk	a. guarantee (*kafalah*), applied in group financing, b. collateral (*daman*) for individual financing and micro-takaful.

Source: Obaidullah and Khan (2008: 18-22)

It seems that these instruments cover the required instruments in the field, which can replaced what conventional microfinance offered in free interest perspective. Specifically, the characters of the above financing products are presented below:

Table 3. Financing Instruments

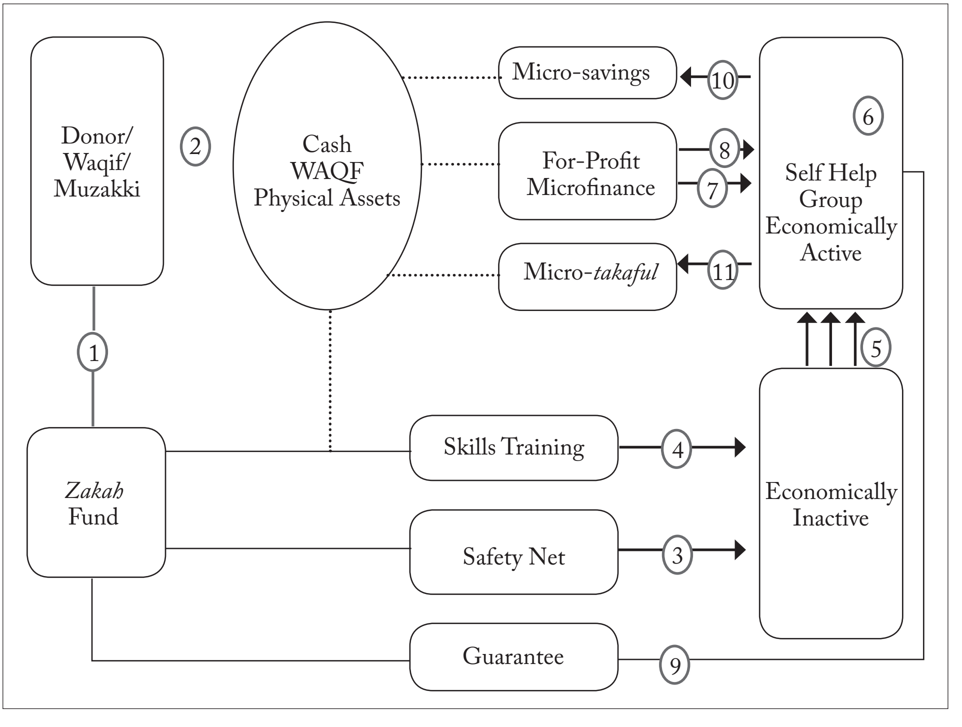
Instrument	Mechanism	Suitability	Risk to borrower	Risk to institution	Remarks
Mudarabah	Trustee partnership with pre-agreed ratio of profit sharing, the institution provide capital and borrower responsible to manage the fund in business.	Fixed assets purchased, working capital financing and project financing.	If loss, it has risk of un-rewarded work.	Full responsibility of capital loss.	It has complex operation with high operation, administrative and monitoring cost, require transparent and accountable reporting. Ideal mode of financing but hardly practiced.
Musharakah	Joint venture/ partnership contract, both participate in management and capital.	Fixed assets purchased, working capital financing and project financing.	If loss, share will be according to equity participation.	If loss, share will be according to equity participation	It has complex operation with high operation, administrative and monitoring cost, require transparent and accountable reporting. Ideal mode of financing but hardly practiced.
Murabahah (bai mu'ajjal)	Sale agreement with specified profit margin, payment can be in instalment or lump sum.	Fixed assets and working capital	Borrower can use asset and owned it in the end of period.	Institution has the asset ownership, hence it has risk and liabilities of assets.	More popular, simpler and easier to manage compared to *mudarabah/ musharakah*.
Ijarah	Leasing physical assets, institution is the owner of assets during *ijarah* period.	All income generating assets, particularly fixed assets.	Leased assets is a trust, no costs if the asset is damage beyond his control.	Institution has risk and liabilities of assets ownership.	Lower administration and monitoring cost and simple operation, could be adopted by conventional microfinance.
Qard Hasan	Loan with zero nominal return.	All purposes (consumption/ productive).	Very low	Very low	The purest financing with the main purpose is only charity and helping the poor.

Source: Obaidullah (2008b), Dusuki (2008) and (Dhumale and Sapcanin, 1999).

Among the above instruments, *murabahah*, *mudarabah* and *qard hasan* seems to be the most practical and suitable scheme due to easier operation and monitoring of equal instalment derived from buy-resell model (Dhumale and Sapcanin, 1999).

Methods in Islamic microfinance might include: composite model of Islamic microfinance (Obaidullah, 2008b: 54), *wakalah* agency model, *mudarabah* agency model (Wilson, 2007), and SPV model (Dusuki, 2008). Composite model, as depicted in Figure 1, works in the activities as follows: (i) Donor create *zakah* fund; (ii) *waqf* fund based in physical and cash is build; (iii) The poorest who are economically inactive will get *zakah* fund as safety net; (iv) Skills training are delivered for the poorest using physical assets from *waqf*; (v) Skills improvement will encourage the poorest to graduate from poverty and become economically active; (vi) They are formed in self help groups with mutual guarantee; (vii) Allocated fund based on combination for profit debt based and equity based modes; (viii) Loan repayment, with possibilities of higher loan in the future; (ix) *zakah* fund is used to guarantee against default; (x) Saving is encouraged under micro-savings; (xi) *takaful* fund is encouraged to protect against risks and uncertainties (Obaidullah, 2008b: 53-55).

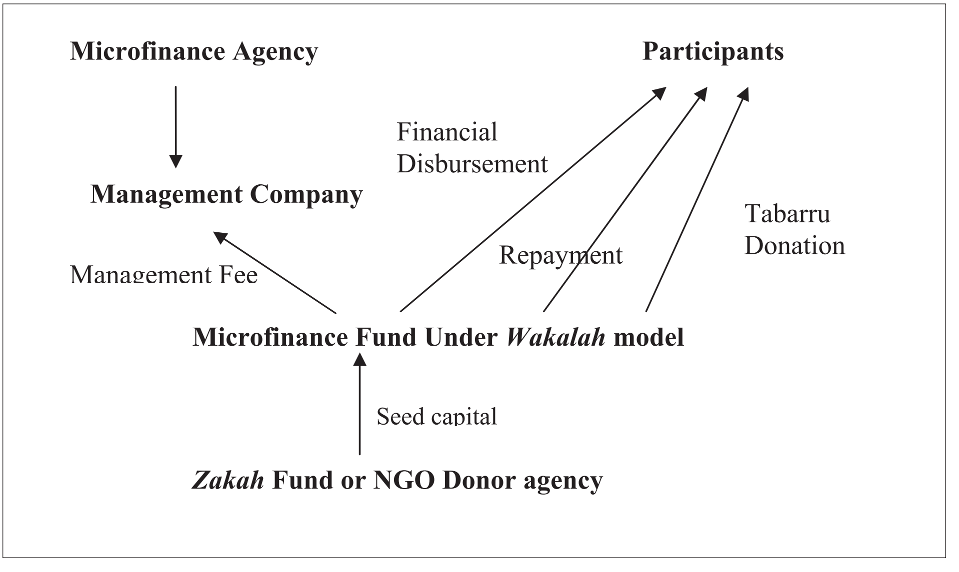
Figure 1: Composite Model of Islamic Microfinance



Source: Obaidullah (2000b: 54)

Wakalah model, as depicted in Figure 2, utilizes fund from *zakah* and NGO donor, distributed to the poor in *qard hasan*, hence, *zakah* is promoted as self sustaining development tool for the needy, and educate them to be independent (Wilson, 2007-210). The management company act as agency and assesses the eligible credit application. For this duty, a fixed fee, not the share of *wakalah* fund, set up for management as reward of conducting the operation. The participants could get fund disbursement, but with rationing mechanism and prioritization to prevent mass of capital be taken out. In this case, it is similar to credit union, but with qualified financial administration and protection for clients. This model widely used in Islamic *takaful* insurance, as it having donation of *tabarru* (solidarity) fund as revenue accumulation to help other participants. Other revenues gathered through management fee based services (*jualah*).

Figure 2: Wakalah Agency Model

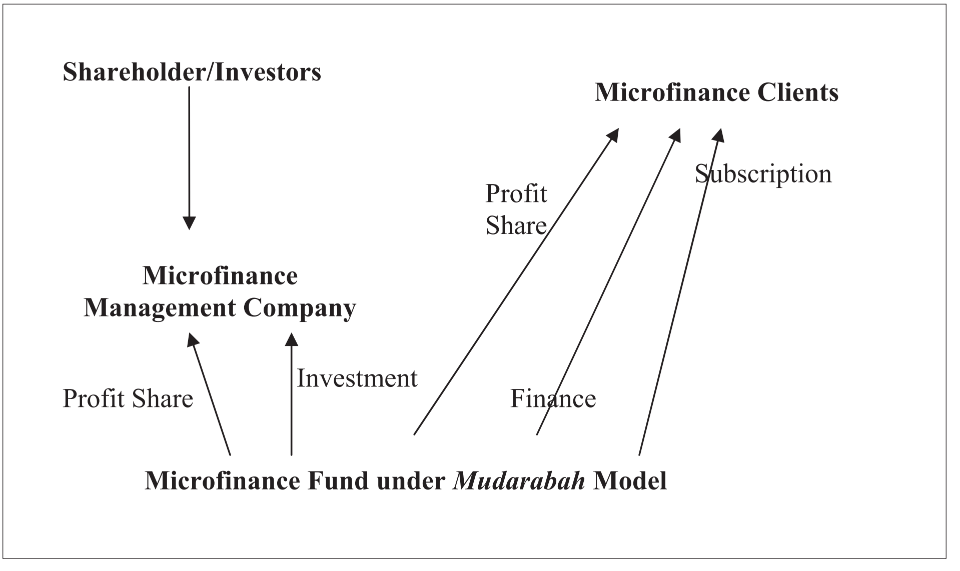


Source: Wilson (2007: 204)

Mudarabah model, as depicted in Figure 3, works differently compared to *wakalah* model as it is based on profit and loss sharing contract (Wilson, 2007: 211). In this model, company acts as financier (*Rabb al mal*), invest the fund to client (*mudharib*) and get pre-determined ratio of profit share as return, in which similar to joint venture. Hence, due to the fluctuation of actual profit, the amount of share will fluctuate. If there is loss, the bank will liable for not getting the fund back and clients has risk of not obtaining rewards for the works done in running the business. *Zakah* fund could not be used in this method because the nature is more commercial rather than social. The issue in this method, as in conventional also, is asymmetric information – due to difficulties to get information about clients' liability - and moral hazard in the case of misuse of fund.

Overall, Wilson (2007) underlines that microfinance services should be provided by specialised financial institutions rather than Islamic banks.

Figure 3: *Mudarabah* model



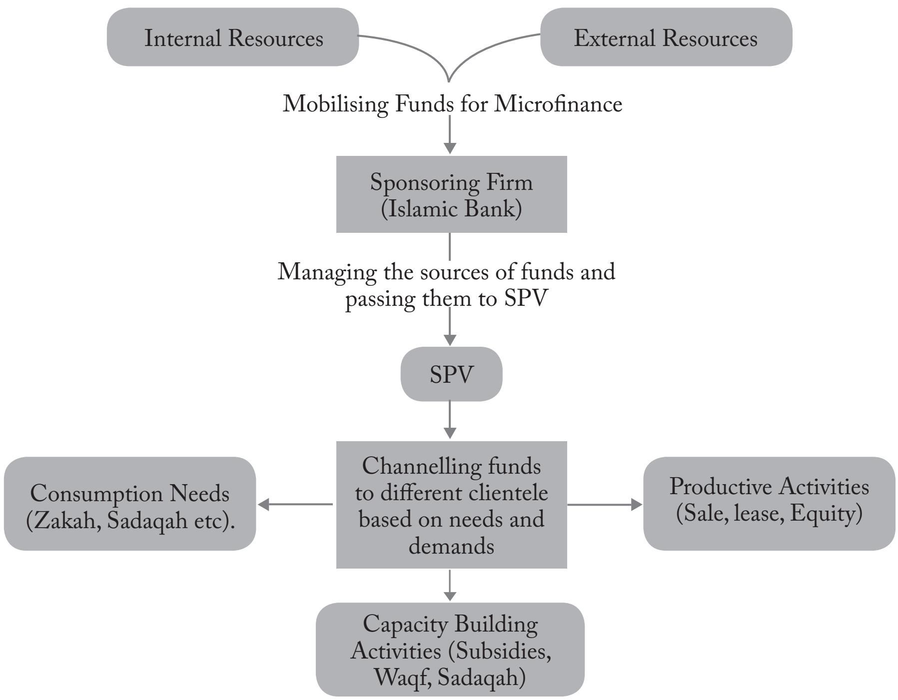
Source: Wilson (2007: 211)

In contrast to Wilson's concept, Ahmed (2012) has recently proposed two models of Islamic microfinance organisation. First, Islamic banks could manage Islamic microfinance through the establishment of a microfinance division, which applies the same format of group-based financing and weekly repayments. This proposal is based on the argument that Islamic banks have more capable staff to manage financing, and a large number of branches/networking which might reduce administration costs; hence Islamic banks' operation of Islamic microfinance is likely to be more effective than that of Islamic MFIs (Ahmed, 2012: 25-26). Furthermore, the economic viability of Islamic banking is likely to be higher compared to Islamic MFIs in terms of available funds and lower operational costs due to its wider operation. Subsequently, micro financing and social services could be provided with more effective and efficient management.

Second, there is a potential to develop the provision of Islamic micro financing through traditional Islamic instruments such as *zakah, waqf*, *qard hasan* and *sadaqat* (Ahmed, 2012: 27-29). Currently, researchers have become increasingly interested in the implementation of this concept. Aligned with this concept, Zarka (2012) argues that microfinance should be provided by *waqf* institutions rather than Islamic banks. In his scheme, he suggests the establishment of a guarantor of liquidity and a guarantor of losses with the purpose of strengthening the security of funds; hence, this is expected to contribute to the improvement of credit standing (Zarka, 2012. : 78-79).

SPV model shown in Figure 4 is proposed by Dusuki as an alternative, which have the following features: (i) a variety of fund sources with specific microfinance intention are mobilised by Islamic Banks, (ii) a bankruptcy-remote SPV is created, (iii) certain amounts of funds are allocated and forwarded to SPV, (iv) the funds are distributed to based on clients' demand (Dusuki, 2008: 61).

Figure 4: SPV Model



Source: Dusuki (2008: 62).

It can, therefore, be summarised from the above models that Islamic microfinance maintains the basic format of conventional microfinance in terms of weekly/monthly repayments and social development programmes. However, Islamic microfinance has more opportunities to use other external funds from charities (*zakah, waqfs*), the mode of financing is more varied to accommodate the different needs of the poor, and the approach in dealing with default is softer.

Performance and Impact of Islamic Microfinance on Poverty Alleviation

Provision of financial access to poor people will enable them to increase their income and economic wellbeing, develop assets and reduce weaknesses (Obaidullah, 2008b: 4) by empowering them with the objective of developing functioning and enabled individuals (Sen, 2001: 177-178). The lack of financial access seems to be the main reason for their inability to become involved in development (Obaidullah, 2008b: 4).

Islamic MFIs might be able to alleviate poverty because they are not debt-based; hence, they will not drag their clients into an even worse situation. Islamic teaching also encourages the waiving of credit if clients are in deep trouble.

The performance of Islamic microfinance has been quite promising. Obaidullah (2008a: 23) argues that the performance of RDS (Rural Development Scheme) of IBBL was better in terms of growth (12.5%), drop out rate (5%), and operational efficiency as compared to three conventional leaders in microfinance; Grameen Bank, ASA (Association for Social Advancement), BRAC (Bangladesh Rural Advancement Committee). Having lower rate of return charged (10% with 2.5% rebate for on time payment) than other microfinance (16% to 22.5% of interest), this offers advantage for the poor (Obaidullah, 2008a: 23-24). This microfinance also offers active spiritual development program with the purpose to improve members' awareness of social right and responsibility in order to improve better relationship with others (Obaidullah, 2008a: 19), the program which has not been provided by conventional microfinance.

However, different view presented by Seibel (2005), as he located certain problems that Islamic microfinance in Indonesia has low assets compared to conventional banking due to the lack of regulatory and supervisory aspects in Islamic values. The two proposed options are: to pay attention completely on Islamic commercial banks and "establishment of branch networks with Islamic microfinance products"; and 2) to reassess the challenges and realistic opportunities for Islamic rural banks and cooperatives" (Seibel, 2005: 41). Although this finding might be true in the specific research area, but it could not be generalised in all area of this country, as Obaidullah (2008a: 53-54) maintains that the BMT (*Baitul Maal wat Tamweel*/Islamic Cooperative) in Indonesia provides successful story in linkage program between group of microenterprises, BMT and Islamic Banks. Given the ability to cooperate with the poor the surrounding area, BMT seems to be the most proper institution to serve the poor (Ascarya and Sanrego, 2007)

Concerning the impacts of Islamic microfinance, it can be discussed into two areas: economic and social aspect. In general, it is expected that provision of financial access to poor people will enable them to increase their income and economic wellbeing, develop assets, decrease weaknesses, and get involve in development (Obaidullah, 2008b: 4). The latest economic impact presented by empirical study of IBBL's (Islamic Bank Bangladesh Limited) impact on rural poverty finds that loans affected considerably in improving household earnings, output of harvest and cattle, disbursement and employment (Rahman and Ahmad, 2010: 177 - 179). In particular, based on field survey of 1,024 respondents, Rahman and Ahmad (2010: 177-178) finds that the family income increased by more than 33%, the expenditure for health increases 50%, family employment increased from 1.91 to 2.1 working members, all types of assets has also increased. Moreover, the impressive economic impact based on the study of three Islamic Microfinance Institutions in Bangladesh explored by Ahmed (2002: 53), as he finds the economic impacts in increasing: time spend on productive activities by beneficiaries and other family members output of economic activity, particularly in improving amount of goods/services, innovation of new product, increasing assets and other properties. These economic aspects might imply that Islamic microfinance has an advantage to offer, although it still has weaknesses to be overcome.

Recently, a study by Shirazi (2012: 20) finds poor borrowers are most benefited as compared to the non-poor borrowers in terms of income growth (2% and 6%), as based on the data from Pakistan Poverty Alleviation Fund in 2005 covering 3,000 household. In addition, the most recent study on the economic impact of IsMFIs in Thailand suggests that IsMFIs has positively contributed to increase the customers' welfare (Naipom, 2013).

In particular to the economic impact of micro financing, Naipom (2013: 190) argues that gender, annual household income, age, total land size, membership length and occupation contribute to the impact factors. These economic aspects might imply that Islamic microfinance has an advantage to offer, although it still has weaknesses to overcome.

Social impacts might include improvement of Islamic knowledge and relationship with others, health. Rahman and Ahmad (2010: 180) find that the health awareness of the respondents increase in term of increasing number of people consume quality drinking water and using quality latrine for sanitation (17.91%). Besides, the clients also have positive opinions towards improvement of their skills and social and economic well being (Rahman and Ahmad, 2010: 186). Ahmed (2002: 55) also reveals that beneficiaries of Islamic microfinance not only get financial advantages, but also improvement of other aspects through social development programs: improvement of Islamic knowledge, improving relationship with spouses and other group members. Based on these two studies, it can be implied that Islamic microfinance has consider social aspects, although more attention should be emphasized.

In overall, on the basis of the above studies, it can be inferred that Islamic microfinance has considerable social aspects, although it requires more attention. Hence, in order to have a wider impact, Dusuki (2008: 58) argues that microfinance should provide market-based services, creativity to innovate new programmes and product differentiation, efficient operation, and broader outreach, offering not only productive loans but also loans for consumption purposes to cover the cost of health, education and social responsibility.

Conclusion

Islamic microfinance, as a relatively young industry, provides services particularly to meet the demand of a specific market whose members cannot accept the conventional financing product due to their adherence to Islamic principles. Thus, Islamic Micro Finance should be considered contributing to poverty alleviation, financial development and also financial inclusion because it offers unique characteristics with rich of values and human oriented. In practice, it has interest free approach; hence, it will not drag clients to debt trap and worse condition.

The performances of Islamic microfinance in general are quite promising. Evidences from the impacts studies also provide good results on how Islamic microfinance can improve economic and social well being of the clients, although in certain areas improvement is still required, particularly dealing with improvement of regulation and provision of trainings in social development both for institution's employees and borrowers.

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